Oiltanking Partners, L.P.
Form 10-K
March 07, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012
or

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number: 001-35230
Oiltanking Partners, L.P.
(Exact name of registrant as specified in its charter)

Delaware	45-0684578
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
15631 Jacintoport Blvd. Houston, TX	77015
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (281) 457-7900
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common units representing limited partnership interests	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	þ
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o

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

The aggregate market value of the common units held by non-affiliates of the registrant (treating all executive officers and directors of the registrant and holders of 10% or more of the common units outstanding, for this purpose, as if they may be affiliates of the registrant) was approximately $358.8 million on June 29, 2012, based on a closing price of $31.35 per common unit as reported on the New York Stock Exchange on such date.

As of March 6, 2013, there were 19,449,901 common units and 19,449,901 subordinated units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information contained in this Annual Report on Form 10-K (this “Report”) includes “forward-looking statements.” All statements that express belief, expectation, estimates or intentions, as well as those that are not statements of historical facts, are forward-looking statements. Such statements use forward-looking words such as “proposed,” “anticipate,” “project,” “potential,” “could,” “should,” “continue,” “estimate,” “expect,” “may,” “believe,” “will,” “plan,” “seek,” “outlook” expressions that are intended to identify forward-looking statements, although some forward-looking statements are expressed differently. These statements discuss future expectations and contain projections. Specific factors that could cause actual results to differ from those in the forward-looking statements include, but are not limited to: (i) adverse regional, national or international economic conditions, adverse capital market conditions or adverse political developments; (ii) changes in the marketplace for our products or services, such as increased competition, better energy efficiency, or general reductions in demand; (iii) changes in the long-term supply and demand of crude oil, refined petroleum products and liquefied petroleum gas in the markets in which we operate; (iv) actions taken by our customers, competitors and third party operators; (v) nonpayment or nonperformance by our customers; (vi) changes in the availability and cost of capital; (vii) unanticipated capital expenditures in connection with the construction, repair, or replacement of our assets; (viii) operating hazards, natural disasters, terrorism, weather-related delays, adverse weather conditions, including hurricanes, natural disasters, environmental releases, casualty losses and other matters beyond our control; (ix) the effects of existing and future laws and governmental regulations to which we are subject, including those that permit the treatment of us as a partnership for federal income tax purposes; and (x) the effects of future litigation. These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other factors that could also have material adverse effects on future results include the known material risks and uncertainties under the captions “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Report. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements, and we cannot assure you that actual results or developments that we anticipate will be realized or, even if substantially realized, will have the expected consequences to or effect on us or our business or operations.

The forward-looking statements contained in this Report speak only as of the date hereof. Although the expectations in the forward-looking statements are based on our current beliefs and expectations, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date hereof. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason. All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Report and in our future periodic reports filed with the U.S. Securities and Exchange Commission (“SEC”). In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Report may not occur.

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PART I

Item 1. Business

Introduction

Oiltanking Partners, L.P. (“OILT”) is a Delaware limited partnership formed by Oiltanking Holding Americas, Inc. (“OTA”) on March 14, 2011 to engage in the storage, terminaling and transportation of crude oil, refined petroleum products and liquefied petroleum gas. Through our wholly owned subsidiaries, Oiltanking Houston, L.P. (“OTH”) and Oiltanking Beaumont Partners, L.P. (“OTB” and together with OTH, our “Predecessor”), we own and operate storage and terminaling assets located along the Gulf Coast of the United States on the Houston, Texas Ship Channel and in Beaumont, Texas. We report in one business segment. See Item 8. Financial Statements and Supplementary Data for revenues from external customers, measures of profit and total assets.

Our Houston and Beaumont terminals provide deep-water access and significant interconnectivity to refineries, chemical and petrochemical companies, common carrier and dedicated pipelines and production facilities and have international distribution capabilities. Our facilities are directly connected to 23 refineries, storage facilities and production facilities along the Gulf Coast area through dedicated pipelines and common carrier pipelines, to end markets along the Gulf Coast and to the Cushing, Oklahoma storage interchange.

The diagram below illustrates the position and function of the independent terminaling and storage industry within the crude oil and refined products market chain.

Terminaling Industry’s Role in Crude Oil and Petroleum Products Supply Chain
OTA owns and controls OILT’s general partner, OTLP GP, LLC. OTA is a wholly owned subsidiary of Oiltanking GmbH, our German parent company. Oiltanking GmbH and its subsidiaries, other than OILT and its subsidiaries, are collectively referred to herein as the “Oiltanking Group.” As used in this document, the terms “we,” “us,” and “our” and similar terms refer to OILT and its subsidiaries, where applicable, unless the context indicates otherwise.

We completed our initial public offering (“IPO”) on July 19, 2011. In exchange for OTA and its affiliates contributing all of their equity interests in OTH and OTB to us, we issued limited partner interests to OTA and its affiliates. We also issued incentive distribution rights (“IDRs”) to our general partner. Through July 18, 2011, OTH and OTB were wholly owned subsidiaries of OTA. At December 31, 2012, OTA owned our general partner, 7,949,901 common units and 19,449,901 subordinated units.

At December 31, 2012, we had outstanding (i) 19,449,901 common units and 19,449,901 subordinated units representing limited partner interests, (ii) a 2.0% general partner interest and (iii) IDRs. OTA and its affiliates hold 70.4% of all of our outstanding common and subordinated units (or a 69.0% limited partner interest), and other security holders hold the remaining 29.6% (or a 29.0% limited partner interest). The limited partners collectively hold a 98.0% limited partner interest in OILT, and the general partner holds a 2.0% general partner interest in OILT and all of its IDRs.

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The following chart depicts our ownership structure as of December 31, 2012 and approximate ownership percentages.

Our common units are listed on the New York Stock Exchange (“NYSE”) under the symbol “OILT.”

2012 and Recent Developments

Expansion Projects and Assets Placed Into Service
During the first quarter of 2012, the board of directors of our general partner approved an $11.0 million project to extend our previously announced pipeline expansion into a third-party terminal in Houston. This connection will enable our pipeline system and Houston terminal to access additional sources of crude oil being delivered to the Houston market.

During the second quarter of 2012, the board of directors of our general partner approved an expansion project of approximately $104.0 million to construct approximately 3.2 million barrels of new crude oil storage capacity on approximately 122 acres of land that we own near our Houston terminal (our “Appelt” property). The project included the purchase of 95 acres of nearby land on which the new capacity is being constructed. All of the storage capacity from this expansion project has been fully contracted at an average term of approximately 6.3 years. We expect to complete construction of this new crude oil storage capacity, referred to as “Appelt I,” during the fourth quarter of 2013.

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During the third quarter of 2012, the board of directors of our general partner approved an approximately $70.0 million project to construct approximately 3.3 million barrels of new crude oil storage capacity at our Appelt property. We anticipate commencing construction on this project during the second quarter of 2013 when all relevant permits are in place. The new storage capacity, referred to as "Appelt II," is expected to be placed into service during the third and fourth quarters of 2014.

During January 2013, we placed our previously announced pipeline expansion project into service. In addition, in February 2013, we placed three new crude oil storage tanks with a total capacity of 825,000 barrels into service. The final 275,000 barrel tank of this four tank expansion project is expected to be placed into service in the second quarter of 2013. In Beaumont, we completed construction on and placed two new refined products storage tanks with total capacity of 325,000 barrels into service.

Once complete, the system expansion projects will bring total active storage capacity to approximately 25.3 million barrels by the end of 2014. We anticipate funding the expansion projects primarily with cash on hand and long-term borrowings from Oiltanking Finance B.V., a wholly owned finance company of the Oiltanking Group.

In addition, in March 2013, we announced an expansion of our relationship with Enterprise Products Partners L.P. ("Enterprise") and plans to increase our ability to import/export liquefied petroleum gas ("LPG") at our terminal on the Houston Ship Channel. In connection with the agreement with Enterprise, we will construct a new vessel dock and add infrastructure to existing docks with the capability of handling substantially more LPG vessels at multiple docks. The $44.0 million expansion is expected to be completed by the end of the fourth quarter of 2014.

Loan Agreement

On May 16, 2012, OTH entered into a ten-year $125.0 million unsecured loan agreement with Oiltanking Finance B.V. (the "Loan Agreement") for the purpose of financing the purchase of property, plant and equipment, through which borrowings were available through December 15, 2012 (the "Availability Period"), with a maturity date of December 15, 2022. At December 31, 2012, we had $125.0 million of outstanding borrowings under the Loan Agreement.

In October 2012, OTH agreed to fix the interest rate applicable to borrowings under the Loan Agreement after the Availability Period at 4.55% per annum (calculated as the USD Swap Rate for ten years as of the date of determination of 1.85% plus a margin of 2.70%). See Note 8 in the Notes to Consolidated Financial Statements for further information.

Amendment to the Credit Agreement

On November 7, 2012, OILT entered into Addendum No. 2 to the Credit Agreement with Oiltanking Finance B.V. (as amended, the "Credit Agreement") to increase the amount of the revolving credit commitment to $150.0 million (the "Amendment"). From time to time upon OILT's written request and in the sole determination of Oiltanking Finance B.V., the revolving credit commitment can be increased up to an additional $75.0 million, for a maximum revolving credit commitment of $225.0 million. Borrowings bear interest at LIBOR plus a margin ranging from 1.65% to 2.50% depending upon a leverage-based grid. Any unused portion of the revolving line of credit is subject to a commitment fee of 0.35% per annum. OILT paid an arrangement fee of $0.5 million to Oiltanking Finance B.V. in connection with the Amendment, which has been deferred and is being amortized over the life of the Credit Agreement. The maturity date of the amended Credit Agreement is November 30, 2017. The Financial Parameters (as such term is defined in the Amendment) remain the same as they existed prior to the Amendment. See Note 8 in the Notes to Consolidated Financial Statements for further information.

Management Changes

Effective November 26, 2012, Anne-Marie Ainsworth was appointed to serve as President and Chief Executive Officer of our general partner. Ms. Ainsworth was also appointed to serve as a member of the board of directors of our general partner. Ms. Ainsworth replaced our general partner's President and Chief Executive Officer, Carlin Conner, who assumed the role of Managing Director of Oiltanking GmbH and joined the Executive Board of Marquard & Bahls AG. Mr. Conner continues to serve as Chairman of the board of directors of our general partner.

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On September 1, 2012, Brian C. Brantley was appointed by the board of directors of our general partner to serve as Vice President, General Counsel and Secretary.

Jan P. Vogel resigned from his position as Vice President of Corporate Affairs and Strategic Planning of our general partner and certain of our subsidiaries, in each case effective March 5, 2013. Mr. Vogel resigned these positions to devote all of his time to his duties as President and Chief Executive Officer of United Bulk Terminals USA, Inc., a wholly-owned subsidiary of OTA which holds OTA's interest in certain coal, petroleum coke and other dry bulk terminal and storage assets.

Assets and Areas of Operations

Our terminal assets are strategically located along the Gulf Coast of the United States on the Houston, Texas Ship Channel and in Beaumont, Texas. Our Houston and Beaumont terminals provide deep-water access and significant interconnectivity to refineries, chemical and petrochemical companies, common carrier and dedicated pipelines and production facilities and have international distribution capabilities. Our facilities are directly connected to 23 refineries, storage facilities and production facilities along the Gulf Coast area through dedicated pipelines and common carrier pipelines, to end markets along the Gulf Coast and to the Cushing, Oklahoma storage interchange. Certain of our facilities were designed and constructed specifically for our customers' needs. These assets, as well as our substantial connectivity, make us an important part of many of our customers' supply chains, and we believe that their costs associated with arranging for alternative terminaling or storage services would be substantial.

Refiners and chemical companies typically use our terminals because their facilities may not have adequate storage capacity or sufficient dock infrastructure or do not meet specialized handling requirements for a particular product. We also provide storage services to producers, marketers and traders that require access to large, strategically located storage capacity. Our geographic location, efficient and well-maintained storage assets, deep-water access and extensive distribution interconnectivity give us the flexibility to meet the evolving demands of our existing customers as well as those of prospective customers seeking terminaling and storage services along the Gulf Coast.

Our primary assets are our terminal facilities and related infrastructure at our Houston and Beaumont terminals. Information with regard to these assets as of December 31, 2012 is set forth below:

Location	Active Storage Capacity (shell mmbbls)	Expansion Capacity (shell mmbbls)	No. of Active Tanks	% of Active Storage Capacity under Contract	Weighted-Average Contract Life (years) (1)	Composition of Contracted Storage Capacity	Supply Modes	Delivery Modes
Houston	12.1	12.4 (2)	63	99.1%	5.9	71% crude oil, 21% heavy petrochemical feedstocks, 5% refined petroleum products, 3% fuel oil	Vessel, Barge, Pipeline, Railcars, Tank Trucks	Vessel, Barge, Pipeline, Railcars, Tank Trucks
Beaumont	5.5	5.1 (3)	71	95.5%	4.1	99% refined petroleum products, 1% fuel oil	Vessel, Barge, Pipeline	Vessel, Barge, Pipeline
Total	17.6	17.5	134	97.3%	5.5			

(1)

Weighted based upon revenues for the year ended December 31, 2012 as compared to the remaining contract life of each contract.

(2) Includes 7.6 million barrels of announced storage capacity expansion currently in the permitting process and/or construction.

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(3) Represents additional storage capacity that could be constructed at our Beaumont terminal. Amount does not include more than 20.0 million barrels of additional storage capacity which we have sufficient acreage to construct on the remote side of our terminal complex with pipeline connections to our waterfront.

Because of the strategic location of our assets, our deep-water access and our integrated distribution network, as well as significant barriers to entry for potential competitors, we believe that we are well-positioned to expand our existing operations in the Gulf Coast region.

Houston Terminal

We operate one of the largest third-party crude oil and refined petroleum products terminals on the Houston Ship Channel. Our facility has an aggregate active storage capacity of approximately 12.1 million barrels and provides integrated terminaling services to a variety of customers, including major integrated oil companies, marketers, distributors and chemical companies. This active storage capacity does not include 7.6 million barrels of storage capacity that we are in the process of completing for customers, of which 0.8 million barrels was placed into service in February 2013. Of the remaining 6.8 million barrels, 0.3 million is expected to be placed in service in the second quarter of 2013, 3.2 million is expected to be placed in service during the fourth quarter of 2013 and 3.3 million is expected to be placed in service during the third and fourth quarters of 2014.

The principal products handled at our Houston terminal complex are crude oil, the inputs for chemical production (such as naphtha and condensate), which are referred to as chemical feedstocks, liquefied petroleum gas and refined petroleum products, such as gasoline and distillates. Crude oil accounts for approximately 71% of our active storage capacity.
Our storage and distribution network is highly integrated with the greater Houston petrochemical and refining complex. The facility handles products through a number of transportation modes, primarily through proprietary pipelines or pipelines interconnected to local refineries and production facilities, including Houston Refining LP's refinery in Houston, Texas, Pasadena Refining System Inc.'s refinery in Pasadena, Texas, ExxonMobil Corporation's refinery in Baytown, Texas, Marathon Petroleum Corporation's refinery in Texas City, Texas, and Valero Energy Corporation's refinery in Houston, Texas. During 2012, we completed an additional direct connection to the Shell Deer Park Refining Company's refinery in Deer Park, Texas. The expansion projects discussed above include further development of our pipeline network to further expand our distribution capabilities.

Our Houston terminal also handles products through third-party crude oil, refined petroleum products and liquefied petroleum gas tankers and barges arriving at our deep-water docks. Our waterfront capabilities consist of six deep-water ship docks and two barge docks, and we can accommodate vessels with up to a 45 foot draft, including Suezmax tankers, which are the largest tankers that can navigate the Houston Ship Channel. We also have two permits that would allow us to add additional ship dock capacity and one permit that would allow us to add additional barge dock capacity. The size and structure of our waterfront at the Houston terminal allows us not only to receive and unload crude oil and refined petroleum products for our storage customers, but also to contract with customers for the rights to use our docks for their own activities. For example, for the year ended December 31, 2012, we generated 21% of our Houston terminal revenues from throughput fees charged to non-storage customers that utilize our waterfront to export and import products under multi-year throughput agreements.

We believe our Houston terminal is well positioned to take advantage of changing crude oil logistics in the Gulf Coast as a result of pipeline construction projects that, in the aggregate, could transport approximately two million barrels of oil per day into and throughout the Gulf Coast region if completed as planned. To capitalize on these expected new sources of crude oil supply, during 2012, we purchased approximately 122 acres of land, which we refer to as our Appelt property, and various rights-of-way necessary to construct an additional 6.5 million barrels of crude storage capacity on property to be connected to our Houston terminal and to expand our connectivity to other storage and

transportation hubs in the Houston market. The Appelt property has sufficient acreage beyond the current announced projects to construct an additional approximately 3.0 million barrels of storage capacity.

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At December 31, 2012, we have firm contracts for approximately 99.1% of our 12.1 million barrels of storage capacity at our Houston terminal, with a weighted-average contract life of 5.9 years.

Our real property at our Houston area terminals consists of approximately 386 acres. In addition, we own approximately 24 acres at the Crossroads Interchange approximately six miles from our Houston area terminals and have an option to acquire the rights-of-way necessary to connect the acreage to our Houston area terminals.

We believe that our location on the Houston Ship Channel to the east of the Beltway 8 Bridge enables us to handle larger vessels than our competitors who are located to the west of the Beltway 8 Bridge because our waterfront has fewer draft and beam restrictions.

Beaumont Terminal

Our Beaumont terminal, located on the Neches River, serves as a regional strategic and trading hub for refined petroleum products for refineries located in the Gulf Coast region. Our facility has an aggregate active storage capacity of approximately 5.5 million barrels and provides integrated terminaling services to a variety of customers, including major integrated oil companies, distributors, marketers and chemical and petrochemical companies. The principal products handled at our Beaumont terminal complex are refined petroleum products, which accounted for approximately 99% of our active storage utilization as of December 31, 2012.

Our storage and distribution network is highly integrated with the Beaumont/Port Arthur petrochemical and refining complex, and provides our customers with the additional services of mixing, blending, heating and marine vapor recovery. Our Beaumont facility handles products through a number of transportation modes, primarily through third-party pipelines interconnected to local refineries and production facilities, through our own dedicated pipeline system to Huntsman’s chemical production facility in Port Neches, and through third-party crude and refined petroleum products tankers and barges arriving at our deep-water docks. Our waterfront capabilities currently consist of two deep-water ship docks that can accommodate vessels with drafts of up to 40 feet, and two barge docks that can accommodate vessels with drafts of up to 12 feet. We also own waterfront acreage adjacent to our terminal sufficient to accommodate two additional deep-water docks. The additional waterfront acreage, if developed, would approximately double our current dock capacity.

Our real property at our Beaumont terminal consists of 1,339 acres, all of which we own in fee. We own acreage adjacent to our waterfront on which we can construct tanks with an additional 5.1 million barrels of storage capacity. Additionally, we could construct more than 20.0 million barrels of additional storage capacity on the remote side of our terminal complex with pipeline connections to our waterfront. We believe that we have the existing acreage and potential for connectivity with major pipelines to rapidly and efficiently expand our Beaumont terminal if increasing crude oil supplies or other changing market trends create favorable conditions for growth.

At December 31, 2012, we have firm contracts for approximately 95.5% of our 5.5 million barrels of storage capacity at our Beaumont terminal, with a weighted-average contract life of 4.1 years.

Our Operations

We provide integrated terminaling, storage, pipeline and related services for third-party companies engaged in the production, distribution and marketing of crude oil, refined petroleum products and liquefied petroleum gas. We generate our revenues exclusively through the provision of fee-based services to our customers. The types of fees we charge are:

- Storage Services Fees. For the year ended December 31, 2012, we generated approximately 72% of our revenues from fixed monthly fees for storage services, which our customers pay (i) to reserve storage space in our tanks and

(ii) to compensate us for receiving an agreed upon average periodic amount of product volume, or throughput, on their behalf. These fees are owed to us regardless of the actual storage capacity utilized by our customers or the amount of throughput that we receive.

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- Throughput Fees. For the year ended December 31, 2012, we generated approximately 21% of our revenues from throughput fees, which our non-storage customers pay us to receive or deliver volumes of products on their behalf to designated pipelines, third-party storage facilities or waterborne transportation. In addition, our storage customers pay us throughput fees when we receive volumes of products on their behalf that exceed the base throughput contemplated in their agreed upon monthly storage services fee. The revenues we generate from throughput fees vary based upon the volumes of products accepted at or withdrawn from our terminals.
- Ancillary Services Fees. For the year ended December 31, 2012, we generated approximately 7% of our revenues from fees associated with ancillary services such as heating, mixing and blending our storage customers' products that are stored in our tanks, transferring our storage customers' products between our tanks and marine vapor recovery. The revenues we generate from ancillary services fees vary based upon the activity levels of our customers.

Competition and Customers

Competition

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

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

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

We face significant competition from a variety of international, national and regional energy companies, including large, diversified midstream partnerships, global terminal operators and large multi-national energy companies of varying sizes, financial resources and experience. We believe that we are favorably positioned to compete in the industry due to the strategic location of our terminals in the Gulf Coast, their integration with area refineries, our reputation, our efficiency in docking incoming vessels on our waterfront, the prices we charge for our services and the connectivity, quality and versatility of our services.

The competitiveness of our service offerings could be significantly impacted by the entry of new competitors into the markets in which our Houston and Beaumont terminals operate and serve. We believe, however, that significant barriers to entry exist in the crude oil and refined products terminaling and storage business, particularly for marine terminals and distribution assets. These barriers include significant costs and execution risk, a lengthy permitting and

development cycle, financing challenges, shortage of personnel with the requisite expertise and the finite number of sites suitable for development.

Customers

Our Houston and Beaumont terminals collectively provide storage and terminaling services to a broad mix of customers including major integrated oil companies, refiners, marketers, distributors and chemical and petrochemical companies.

As of December 31, 2012, our Houston terminal had 19 customers with terminal services agreements and our Beaumont terminal had 15 customers with terminal services agreements. The following table presents percentage of revenues associated with our significant customers for the periods indicated:

	Year Ended December 31,		
	2012	2011	2010
BP p.l.c.	16%	15%	14%
LyondellBasell Industries, N.V.	12%	13%	12%
Enterprise Products Partners L.P.	13%	12%	12%
Exxon Mobil Corporation	11%	12%	12%
Royal Dutch Shell plc	9%	11%	11%
Total percentage of revenues associated with significant customers	61%	63%	61%

No other customer accounted for more than 10% of our revenues during the years ended December 31, 2012, 2011 and 2010.

Seasonality

The crude oil, refined petroleum products and liquefied petroleum gas throughput in our terminals is directly affected by the level of supply and demand for crude oil, refined petroleum products and liquefied petroleum gas in the markets served directly or indirectly by our assets, which can fluctuate seasonally, particularly due to seasonal shutdowns of refineries during the spring months. Because a high percentage of our cash flow is derived from fixed storage services fees under multi-year contracts, our revenues are not generally seasonal in nature, nor are they typically affected by weather and price volatility.

Employees

We are managed and operated by the officers of our general partner and do not have any direct employees. All of the employees that conduct our business pursuant to the Services Agreement are employed by a wholly owned subsidiary of OTA. As of December 31, 2012, OTA had approximately 200 employees providing services to us.

We compensate OTA for providing those employee services pursuant to the Services Agreement. None of OTA’s employees are a party to collective bargaining agreements, and we have never experienced any work stoppages or other significant labor problems.

Capital Expenditures

We make capital expenditures in order to maintain and enhance the safety and integrity of our terminals, pipelines, storage facilities and related assets, to expand the reach or capacity of those assets, to improve the efficiency of our operations and to pursue new business opportunities. Maintenance capital expenditures are those capital expenditures required to maintain our long-term operating capacity. Expansion capital expenditures are those capital expenditures that we expect will increase our operating capacity over the long term. See Item 7. Management’s Discussion and

Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.

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During 2012, we spent approximately $149.8 million for capital expenditures, of which $3.7 million related to maintenance capital projects and $146.1 million related to expansion projects. During 2012, we continued construction of the new storage capacity at our Houston area terminals and associated crude oil pipeline infrastructure investments. In addition, we began construction of the 3.3 million barrels of new storage capacity for the first phase of the expansion on our Appelt property and on 300,000 barrels of new storage capacity at our Beaumont terminal, which was placed into service in January 2013.

In 2013, we expect to spend approximately $135.0 million to $145.0 million for capital expenditures, of which approximately $8.0 million is expected to relate to maintenance capital expenditures, including amounts carried over from 2012. A majority of the expansion project spending projected for 2013 relates to crude oil pipelines and storage capacity projects at our Houston area terminals.

Environmental and Occupational Safety and Health Matters

General

Our operations are subject to stringent federal, state and local laws and regulations governing the release of materials into the environment, health and safety aspects of our operations, and otherwise relating to the protection of the environment. Compliance with these laws and regulations may require the acquisition of permits to conduct regulated activities; restrict the type, quantities and concentration of wastes or other pollutants that may be emitted, discharged or disposed into or onto to the land, air and water; apply specific health and safety criteria addressing worker protection; and impose liabilities for pollution from operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations, and the issuance of injunctions that may limit or prohibit some or all of our operations. As with the industry, generally, compliance with existing and anticipated arising environmental laws and regulations increases our overall cost of business, including our capital costs to construct, maintain, operate and upgrade equipment and facilities. We believe our facilities are in substantial compliance with applicable environmental laws and regulations, but these requirements are subject to frequent change by regulatory authorities, and continued or future compliance with such laws and regulations may require us to incur significant expenditures.

The following is a discussion of some of the more significant environmental and occupational safety and health laws and regulations affecting our operations.

Hazardous Substances and Wastes

The federal Comprehensive Environmental Response, Compensation, and Liability Act, as amended (“CERCLA”), also known as Superfund, and comparable state laws, impose liability, without regard to fault or to the legality of the original conduct, on certain classes of persons that contributed to the release of a “hazardous substance” into the environment. These persons include current and prior owners or operators of the site where the release occurred and companies that disposed of, or arranged for the disposal of, the hazardous substances found at the site. Under CERCLA, these persons may be subject to joint and several, strict liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. CERCLA also authorizes the U.S. Environmental Protection Agency (“EPA”) and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment. In the course of our ordinary operations, we generate waste that falls within CERCLA’s definition of a “hazardous substance.”

We also generate hazardous and non-hazardous solid wastes, which are subject to the requirements of the federal Resource Conservation and Recovery Act, as amended ("RCRA"), and comparable state statutes. We are not currently required to comply with a substantial portion of the RCRA requirements relating to hazardous wastes because our operations generate minimal quantities of hazardous wastes. However, such generated wastes remain subject to non-hazardous solid waste requirements and it is possible that some wastes generated by us that are currently classified as

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non-hazardous may in the future be designated as hazardous wastes, resulting in those wastes becoming subject to more rigorous and costly storage, treatment, transportation and disposal requirements than are non-hazardous wastes.

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

Air Emissions

Our operations are subject to the federal Clean Air Act, as amended, and comparable state and local statutes. These laws and regulations govern emissions of air pollutants from various industrial sources and also impose various monitoring and reporting requirements. Such laws and regulations may require that we obtain pre-approval for the construction and/ or modification of certain projects or facilities expected to produce air emissions or result in the increase of existing air emissions, obtain and comply with air permits containing various emissions and operational limitations, and use specific emission control technologies to limit emissions. While we may be required to incur certain capital expenditures in the future for air pollution control equipment in connection with obtaining and maintaining operating permits and approvals for air emissions, we do not believe that our operations will be materially adversely affected by such requirements, and the requirements are not expected to be any more burdensome to us than to any other similarly situated companies.

Climate Change

In response to findings that emissions of carbon dioxide, methane and other greenhouse gases (“GHGs”) present an endangerment to public health and the environment because emissions of such gases are contributing to the warming of the earth’s atmosphere and other climate changes, the EPA has adopted regulations under existing provisions of the federal Clean Air Act including requirements that may trigger construction and operating permit review for GHG emissions from certain large stationary sources. We may be required to install “best available control technology” to limit future emissions of GHGs from any new or significantly modified facilities that we may seek to construct in the future if they emitted large volumes of GHGs, but we do not expect that they will have a material adverse effect on the cost of our operations. The EPA has also adopted rules requiring the annual monitoring and reporting of GHG emissions from certain sources in the United States, including, among others, onshore oil and natural gas production, processing, transmission, storage and distribution facilities. In addition, Congress has from time to time considered legislation to reduce emissions of GHGs, and almost one-half of the states have already taken legal measures to reduce emissions of GHGs, primarily through the planned development of GHG emission inventories and/or regional GHG cap and trade programs. The adoption of any legislation or regulations that requires reporting of GHGs, imposes a carbon tax, or otherwise limits emissions of GHGs from our equipment and operations could require us to incur costs to reduce emissions of GHGs associated with our operations or could adversely affect demand for oil and natural gas that is produced, which could decrease demand for our storage services. Finally, it should be noted that some scientists have concluded that increasing concentrations of GHGs in the earth’s atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, floods and other climatic events; if any such effects were to occur, they could have an adverse effect on our operations.

Water

The Federal Water Pollution Control Act, as amended, also known as the Clean Water Act, and analogous state laws impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil, into federal and state waters. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by EPA or an analogous state agency. Any unpermitted discharge of pollutants could result

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in substantial liabilities, including penalties and significant remedial obligations. Our operations are adjacent to waterways. The transportation of crude oil and refined products over water involves risk and subjects us to the provisions of the Oil Pollution Act, as amended, and related state requirements, which subject owners of covered facilities to strict, joint, and potentially unlimited liability for removal costs and other consequences of an oil spill where the spill is into navigable waters, along shorelines or in the exclusive economic zone of the United States. Spill prevention control and countermeasure requirements under applicable laws and regulations mandate containment to mitigate or prevent contamination of navigable waters in the event of an oil overflow, rupture or leak. For example, the Clean Water Act requires us to maintain spill prevention control and countermeasure plans at our facilities. In addition, these legal requirements direct most oil transport and storage companies to maintain various oil spill prevention and oil spill contingency plans. We maintain such plans, and where required have submitted amended plans and received federal and state approvals necessary to substantially comply with these applicable requirements. We have trained employees who serve as company emergency responders and also contract with various spill-response specialists to ensure appropriate expertise and spill-response resources are available for any contingency, including spills of oil or refined products, from our facilities.

Our Houston and Beaumont facilities train a segment of their employee population to act as company emergency responders and also maintain spill response resources to address a spill or other release from the facilities. Response equipment inventory maintained at each facility is listed in the Facility Response Plan found at each facility. This equipment is handled by employees trained as company emergency responders at each of our facilities. These employees receive annual refresher emergency responder training as well as annual and other periodic drills and training to ensure that they are able to mitigate spills or other releases, and control site response activities, either on their own or, if necessary, until various third-party spill-response specialists whom we engage are able to respond.

Supporting our company emergency responders, as necessary, are various third-party spill-response specialists with whom we contract so that we may ensure appropriate expertise is available for any contingency from our facilities, including spills of oil or refined products. Our primary third-party spill-response specialist is Garner Environmental Services, Inc., who has extensive experience in the clean-up of hydrocarbons resulting from spills, blow-outs and natural disasters and is fully certified as an Oil Spill Removal Organization by the U.S. Coast Guard. Garner has offices near our facilities and maintains a large inventory of emergency response equipment near our facilities. Garner's emergency response capabilities are bolstered by arrangements that it has entered into with other emergency response entities to provide additional trained responders in the event of multiple spills or other situations where a large deployment of emergency responders is necessary. We also maintain relationships and service agreements with multiple other emergency response providers.

Endangered Species Act

The Endangered Species Act restricts activities that may affect endangered species or their habitats. We believe that we are in compliance with the Endangered Species Act. However, the discovery of previously unidentified endangered species in areas where we operate could cause us to incur additional costs or become subject to operating restrictions or bans in the affected area.

Hazardous Materials Transportation Requirements

Our crude oil, refined petroleum product and liquefied petroleum gas pipelines are subject to regulation by the U.S. Department of Transportation ("DOT"), under the Hazardous Liquids Pipeline Safety Act of 1979, as amended, and comparable state statutes relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities. These pipeline safety laws are subject to further amendment, with the potential for more onerous obligations and stringent standards being imposed on pipeline owners and operators. For example, on January 3, 2012, President Obama signed the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011,

which act requires increased safety measures for gas and hazardous liquids transportation pipelines including, among other things, rules or standards relating to expanded integrity management requirements; automatic or remote-controlled valve use, excess flow valve use and leak detection system installation; confirmation of the maximum allowable pressure of pipelines in certain class locations and high consequence areas; and increasing the maximum penalty for violation of pipeline safety regulations from $1 million to $2 million. In addition, our pipelines are also subject to regulation by

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the DOT under the Pipeline Safety Improvement Act of 2002, which was amended by the Pipeline Inspection, Protection, Enforcement and Safety Act of 2006. The DOT, through the Pipeline and Hazardous Materials Safety Administration, has established a series of rules which require pipeline operators to develop and implement integrity management programs for natural gas and hazardous liquid pipelines located in areas where the consequences of potential pipeline accidents pose the greatest risk to people and their property. Moreover, regulations adopted by the DOT require operators to maintain comprehensive spill response plans, including extensive spill response training for pipeline personnel. We believe our operations are in substantial compliance with these laws and regulations.

Occupational Safety and Health

We are subject to the requirements of the Occupational Safety and Health Act, as amended ("OSHA"), and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities and citizens. We believe that our operations are in substantial compliance with applicable OSHA requirements, including general industry standards, record keeping requirements, and monitoring of occupational exposure to regulated substances.

Title to Properties and Rights-of-Way

Our real property falls into two categories: (i) parcels that we own in fee and (ii) parcels in which our interest derives from leases, easements, rights-of-way, permits or licenses from landowners or governmental authorities, permitting the use of such land for our operations. Portions of the land on which our pipelines and facilities are located are owned by us in fee title, and we believe that we have satisfactory title to these lands. The remainder of the land on which our pipelines and facilities are located are held by us pursuant to surface leases between us, as lessee, and the fee owner of the lands, as lessors. We believe that we have satisfactory leasehold estates or fee ownership to such lands. We have no knowledge of any challenge to the underlying fee title of any material lease, easement, right-of-way, permit or license held by us or to our title to any material lease, easement, right-of-way, permit or lease, and we believe that we have satisfactory title to all of our material leases, easements, rights-of-way, permits and licenses.

Safety and Maintenance

We perform preventive and normal maintenance on all of our storage tanks, terminals and pipeline systems and make repairs and replacements when necessary or appropriate. We also conduct routine and required inspections of those assets in accordance with applicable regulation. At our terminals, the tanks designed for storage of products with a vapor pressure of 0.5 pound-force per square inch absolute, or greater, are equipped with Internal Floating Roofs to minimize regulated emissions and prevent potentially flammable vapor accumulation.

Our terminal facilities have response plans, spill prevention and control plans, and other programs in place to respond to emergencies. Our truck and rail loading racks are protected with firefighting systems in line with the rest of our facilities. We continually strive to maintain compliance with applicable air, solid waste and wastewater regulations.

On our pipelines, we use external coatings and impressed current cathodic protection systems to protect against external corrosion. We conduct all cathodic protection work in accordance with National Association of Corrosion Engineers standards. We continually monitor, test and record the effectiveness of these corrosion inhibiting systems. We also monitor the structural integrity of selected segments of our pipelines through a program of periodic internal assessments using high resolution internal inspection tools, as well as hydrostatic testing that conforms to federal standards. We accompany these assessments with a review of the data and mitigate or repair anomalies, as required, to ensure the integrity of the pipeline. We have initiated a risk-based approach to prioritizing the pipeline segments for future integrity assessments to ensure that the highest risk segments receive the highest priority for scheduling internal

inspections or pressure tests for integrity.

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Insurance

Our operations and assets are insured under a global insurance program administered by Oiltanking GmbH and placed with Lloyd's of London and other international insurers. The major elements of this program include property damage (including terrorism), business interruption, third-party liability and environmental impairment insurance. We are invoiced directly by the brokers for this coverage. To the extent that other companies in this program experience covered losses, the limit of our coverage for potential losses may be decreased. In addition to the Oiltanking GmbH insurance program, OTA has a separate commercial liability policy including automobile, boiler and machinery, commercial crime, executive risk and property coverage. We believe that the amount of coverage provided is reasonable and appropriate. We also have director and officer liability insurance for the directors and officers of our general partner.

Available Information

We file annual, quarterly and current reports and other documents with the SEC under the Securities Exchange Act of 1934 (the "Exchange Act"). You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operations of the Public Reference Room by calling the SEC at (800) SEC-0330. In addition, the SEC maintains an Internet website at www.sec.gov that contains reports and other information regarding issuers that file electronically with the SEC.

We also make available free of charge our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, simultaneously with or as soon as reasonably practicable after filing such materials with, or furnishing such materials to, the SEC, and on or through our Internet website, www.oiltankingpartners.com. The information on our website, or information about us on any other website, is not incorporated by reference into this Report.

Item 1A. Risk Factors

There are many factors that may affect our business, financial condition and results of operations and investments in us. Security holders and potential investors in our securities should carefully consider the risk factors set forth below, as well as the discussion of other factors that could affect us or investments in us included elsewhere in this Report. If one or more of these risks were to materialize, our business, financial condition or results of operations could be materially and adversely affected. These known material risks could cause our actual results to differ materially from those contained in any written or oral forward-looking statements made by us or on our behalf.

Risks Inherent in Our Business

We may not have sufficient cash from operations following the establishment of cash reserves and payment of costs and expenses, including cost reimbursements to our general partner, to enable us to pay the minimum quarterly distribution to our unitholders.

We may not have sufficient cash each quarter to pay the full amount of our minimum quarterly distribution. The amount of cash we can distribute on our common and subordinated units principally depends upon the amount of cash we generate from our operations, which fluctuates from quarter to quarter based on, among other things:

- the volumes of crude oil, refined petroleum products and liquefied petroleum gas we handle;
- the terminaling and storage fees with respect to volumes that we handle;
- damage to pipelines, facilities, related equipment and surrounding properties caused by hurricanes, earthquakes, floods, fires, severe weather, explosions and other natural disasters and acts of terrorism or inadvertent damage to

pipelines from construction, farm and utility equipment or damage to docks from collision with vessels;

- leaks or accidental releases of products or other materials into the environment, whether as a result of human error or otherwise;
- planned or unplanned shutdowns of the refineries and chemical production facilities owned by our customers;

- prevailing economic and market conditions;
- difficulties in collecting our receivables because of credit or financial problems of customers;
- the effects of new or expanded health, environmental and safety regulations;
- governmental regulation, including changes in governmental regulation of the industries in which we operate;
- changes in tax laws;
- weather conditions; and
- force majeure.

In addition, the actual amount of cash we will have available for distribution depends on other factors, some of which are beyond our control, including:

- the level of capital expenditures we make;
- the cost of acquisitions;
- our debt service requirements and other liabilities;
- fluctuations in our working capital needs;
- our ability to borrow funds and access capital markets;
- restrictions contained in debt agreements to which we are a party; and
- the amount of cash reserves established by our general partner.

Our business would be adversely affected if the operations of our customers experienced significant interruptions. In certain circumstances, the obligations of many of our key customers under their terminal services agreements may be reduced or suspended, which would adversely affect our financial condition and results of operations.

We are dependent upon the uninterrupted operations of certain facilities owned or operated by our customers, such as the refineries and chemical production facilities we service. Any significant interruption at these facilities or inability to transport products to or from these facilities or to or from our customers for any reason would adversely affect our results of operations, cash flow and ability to make distributions to our unitholders. Operations at our facilities and at the facilities owned or operated by our suppliers and customers could be partially or completely shut down, temporarily or permanently, as the result of any number of circumstances that are not within our control, such as:

- catastrophic events, including fires, explosive incidents and hurricanes;
- environmental remediation;
- labor difficulties;
- disruptions in the supply of products to or from our facilities; and
- terrorist attacks and acts of sabotage targeting oil and gas production facilities, refineries, processing plants, terminals and other infrastructure facilities.

Our terminal services agreements with many of our key customers provide that, if any of a number of events occur, including certain of those events described above, which we refer to as events of force majeure, and the event significantly delays or renders performance impossible with respect to a facility, usually for a specified minimum period of days, our customer's obligations would be temporarily suspended with respect to that facility. In that case, a significant customer's fixed storage services fees may be reduced or suspended, even if we are contractually restricted from recontracting out the storage space in question during such force majeure period, or the contract may be subject to termination. There can be no assurance that we are adequately insured against such risks. As a result, our revenue and results of operations could be materially adversely affected.

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Our financial results depend on the demand for the crude oil, refined petroleum products and liquefied petroleum gas that we transport, store and distribute, among other factors, and the current economic downturn could result in lower demand for these products for a sustained period of time.

Any sustained decrease in demand for crude oil, refined petroleum products and liquefied petroleum gas in the markets served by our terminals could result in a significant reduction in storage or throughput in our terminals, which would reduce our cash flow and our ability to make distributions to our unitholders. Our financial results may also be affected by uncertain or changing economic conditions within certain regions, including the challenges affecting economic conditions in the entire United States. If economic and market conditions remain uncertain or adverse conditions persist, spread or deteriorate further, we may experience material impacts on our business, financial condition and results of operations.

Other factors that could lead to a decrease in market demand include:

- the impact of weather on demand for oil;
- the level of domestic oil and gas production, both on a stand-alone basis and as compared to the level of foreign oil and gas production;
- higher fuel taxes or other governmental or regulatory actions that increase, directly or indirectly, the cost of gasoline;
- an increase in automotive engine fuel economy, whether as a result of a shift by consumers to more fuel-efficient vehicles or technological advances by manufacturers;
- the increased use of alternative fuel sources, such as ethanol, biodiesel, fuel cells and solar, electric and battery-powered engines. Current laws will require a significant increase in the quantity of ethanol and biodiesel used in transportation fuels between now and 2022. Such an increase could have a material impact on the volume of fuels transported on our pipeline or loaded at our terminals; and
- an increase in the market price of crude oil that leads to higher refined petroleum product prices, which may reduce demand for refined petroleum products and drive demand for alternative products. Market prices for crude oil and refined petroleum products are subject to wide fluctuation in response to changes in global and regional supply that are beyond our control, and increases in the price of crude oil may result in a lower demand for refined petroleum products.

Any decrease in supply and marketing activities may result in reduced throughput volumes at our terminal facilities, which would adversely affect our financial condition and results of operations.

Restrictions in our debt agreements could adversely affect our business, financial condition or results of operations.

Under our loan agreements with Oiltanking Finance B.V., we are prohibited from incurring additional indebtedness from third parties without the approval of Oiltanking Finance B.V. In addition, these loan agreements contain covenants that require us to maintain certain debt, leverage and equity ratios and prohibit us from pledging our assets to third parties. Our revolving line of credit with Oiltanking Finance B.V. contains similar restrictions and covenants that could restrict our ability to make cash distributions to our unitholders. As a result, we will be limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs.

Our operations are subject to operational hazards and unforeseen interruptions, including interruptions from hurricanes or floods, for which we may not be adequately insured.

Our primary operations are currently all located in the Gulf Coast region, and are subject to operational hazards and unforeseen interruptions, including interruptions from hurricanes or floods, which have historically impacted the region with some regularity. Each of our Houston and Beaumont terminals, for example, has experienced damage and

interruption of business due to hurricanes. We may also be affected by factors such as adverse weather, accidents, fires, explosions, hazardous materials releases, mechanical failures, disruptions in supply infrastructure or logistics and other events beyond our control. In addition, our operations are exposed to other potential natural disasters, including

tornadoes, storms, floods and/or earthquakes. Moreover, some scientists have concluded that increasing concentrations of greenhouse gas emissions in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts and floods. If any of these events were to occur, we could incur substantial losses because of personal injury or loss of life, severe damage to and destruction of property and equipment, and pollution or other environmental damage resulting in curtailment or suspension of our related operations.

We are not fully insured against all risks incident to our business. Certain of our insurance policies that are under the global insurance program administered by Oiltanking GmbH provide coverage to affiliated entities in the Oiltanking Group that we do not own. This allocation may result in limiting the amount of recovery available to us for purposes of covered losses.

Furthermore, we may be unable to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies have increased and could escalate further. In addition sub-limits have been imposed for certain risks. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we are not fully insured, it could have a material adverse effect on our financial condition, results of operations and cash available for distribution to unitholders.

Reduced volatility in energy prices or new government regulations could discourage our storage customers from holding positions in crude oil or refined petroleum products, which could adversely affect the demand for our storage services.

We have constructed and continue to construct new storage facilities in response to increased customer demand for storage. Many of our competitors have also built new storage facilities. The demand for new storage has resulted in part from our customers' desire to have the ability to take advantage of profit opportunities created by volatility in the prices of crude oil and petroleum products. If the prices of crude oil and petroleum products become relatively stable, or if federal and/or state regulations are passed that discourage our customers from storing those commodities, demand for our storage services could decrease, in which case we may be unable to renew contracts for our storage services or be forced to reduce the rates we charge for our storage services, either of which would reduce the amount of cash we generate.

Some of our current terminal services agreements are automatically renewing on a short-term basis, and may be terminated at the end of the current renewal term upon requisite notice. If one or more of our current terminal services agreements is terminated and we are unable to secure comparable alternative arrangements, our financial condition and results of operations will be adversely affected.

Some of our terminal services agreements currently in effect are operating in the automatic renewal phase of the contract that begins upon the expiration of the primary contract term. Our terminal services agreements generally have primary contract terms that range from one year up to 15 years. Upon expiration of the primary contract term, these agreements renew automatically for successive renewal terms that range from one to five years unless earlier terminated by either party upon the giving of the requisite notice, generally ranging from three to 18 months prior to the expiration of the applicable renewal term. If any one or more of our terminal services agreements is terminated and we are unable to secure comparable alternative arrangements, we may not be able to generate sufficient additional revenue from third parties to replace any shortfall in revenue or increase in costs. Additionally, we may incur substantial costs if modifications to our terminals are required by a new or renegotiated terminal services agreement. The occurrence of any one or more of these events could have a material impact on our financial condition and results of operations.

Competition from other terminals that are able to supply our customers with comparable storage capacity at a lower price could adversely affect our financial condition and results of operations.

We face competition from other terminals that may be able to supply our customers with integrated terminaling services on a more competitive basis. We compete with national, regional and local terminal and storage companies,

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including major integrated oil companies, of varying sizes, financial resources and experience. Our ability to compete could be harmed by factors we cannot control, including:

- our competitors' construction of new assets or redeployment of existing assets in a manner that would result in more intense competition in the markets we serve;
- the perception that another company may provide better service; and
- the availability of alternative supply points or supply points located closer to our customers' operations.

Any combination of these factors could result in our customers utilizing the assets and services of our competitors instead of our assets and services, or us being required to lower our prices or increase our costs to retain our customers, either of which could adversely affect our results of operations, financial position or cash flows, as well as our ability to pay cash distributions to our unitholders.

The expected continued introduction of significant new crude oil supplies to the Gulf Coast region upon the completion of planned pipeline construction projects could decrease our customers' dependence on waterborne crude oil imports and lead to a reduction in the demand for our marine terminal services.

We believe that current and planned expansion projects of other companies will introduce significant new crude oil supplies to the Gulf Coast through proposed pipeline projects that, if approved and completed as expected, could transport approximately two million barrels of crude oil per day into and throughout the region within the next few years.

These or other pipeline construction projects could result in pipeline-delivered crude oil accounting for an increasing share of the crude oil supplies utilized by our customers. This could lead to a decrease in the utilization of waterborne foreign crude oil imports by our customers and a related decrease in demand for our marine terminal services.

Our expansion of existing assets and construction of new assets may not result in revenue increases and will be subject to regulatory, environmental, political, legal and economic risks, which could adversely affect our operations and financial condition.

A portion of our strategy to grow and increase distributions to unitholders is dependent on our ability to expand existing assets and to construct additional assets. The construction of a new terminal, or the expansion of an existing terminal, such as by increasing storage capacity or otherwise, involves numerous regulatory, environmental, political and legal uncertainties, most of which are beyond our control. Moreover, we may not receive sufficient long-term contractual commitments from customers to provide the revenue needed to support such projects. As a result, we may construct new facilities that are not able to attract enough storage customers or throughput to achieve our expected investment return, which could adversely affect our results of operations and financial condition and our ability to make distributions to our unitholders.

If we undertake these projects, they may not be completed on schedule or at all or at the budgeted cost. We may be unable to negotiate acceptable interconnection agreements with third-party pipelines to provide destinations for increased throughput. Even if we receive sufficient multi-year contractual commitments from customers to provide the revenue needed to support such projects and we complete our construction projects as planned, we may not realize an increase in revenue for an extended period of time. For instance, if we build a new terminal, the construction will occur over an extended period of time and we will not receive any material increases in revenues until after completion of the project. Any of these circumstances could adversely affect our results of operations and financial condition and our ability to make distributions to our unitholders.

If we are unable to make acquisitions on economically acceptable terms, our future growth would be limited, and any acquisitions we make may reduce, rather than increase, our cash generated from operations on a per unit basis.

A portion of our strategy to grow our business and increase distributions to unitholders is dependent on our ability to make acquisitions that result in an increase in our cash available for distribution per unit. If we are unable to make

acquisitions from third parties, including from OTA and its affiliates, because we are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts, we are unable to obtain financing for these acquisitions on economically acceptable terms or we are outbid by competitors, our future growth and ability to increase distributions will be limited. Furthermore, even if we do consummate acquisitions that we believe will be accretive, they may in fact result in a decrease in our cash available for distribution per unit. Any acquisition involves potential risks, some of which are beyond our control, including, among other things:

- mistaken assumptions about revenues and costs, including synergies;
- an inability to integrate successfully the businesses we acquire;
- an inability to hire, train or retain qualified personnel to manage and operate our business and newly acquired assets;
- the assumption of unknown liabilities;
- limitations on rights to indemnity from the seller;
- mistaken assumptions about the overall costs of equity or debt;
- the diversion of management's attention from other business concerns;
- unforeseen difficulties operating in new product areas or new geographic areas; and
- customer or key employee losses at the acquired businesses.

If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and unitholders will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

Revenues we generate from throughput fees vary based upon the volumes of products handled at our terminals and the activity levels of our customers. Any short- or long-term decrease in the demand for the crude oil, refined petroleum products or liquefied petroleum gas we handle or any interruptions to the operations of certain of our customers, could reduce the amount of cash we generate and adversely affect our ability to make distributions to our unitholders.

For the year ended December 31, 2012, we generated approximately 21% of our revenues from throughput fees, which (i) our non-storage customers pay us to receive or deliver volumes of products on their behalf to designated pipelines, third-party storage facilities or waterborne transportation and (ii) our storage customers pay us to receive volumes of products on their behalf that exceed the base throughput contemplated in their agreed upon monthly storage services fee. In addition, approximately 13% of our revenues were generated from throughput fees charged to a single customer.

The revenues we generate from throughput fees vary based upon the volumes of products accepted at or withdrawn from our terminals, and our non-storage customers are not obligated to pay us any throughput fees unless we move volumes of products across our pipelines or docks on their behalf. If one or more of our non-storage customers were to slow or suspend its operations, or otherwise experience a decrease in demand for our services, our revenues under our agreements with such customers would be reduced or suspended, resulting in a decrease in the revenues we generate.

We are exposed to the credit risk of our customers, and any material nonpayment or nonperformance by our key customers could adversely affect our financial results and cash available for distribution.

We are subject to the risk of loss resulting from nonpayment or nonperformance by our customers. Approximately 61% of our revenues for the year ended December 31, 2012 were attributable to our five largest customers. Our credit procedures and policies may not be adequate to fully eliminate customer credit risk. If we fail to adequately assess the creditworthiness of existing or future customers or unanticipated deterioration in their creditworthiness, any resulting increase in nonpayment or nonperformance by them and our inability to re-market or otherwise use the capacity could have a material adverse effect on our business, financial condition, results of operations and ability to pay distributions to our unitholders.

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Any reduction in the capability of our customers to utilize third-party pipelines that interconnect with our terminals, or to continue utilizing them at current costs, could cause a reduction of volumes transported through our terminals.

Many users of our terminals are dependent upon connections to third-party pipelines, to receive and deliver crude oil, refined petroleum products and liquefied petroleum gas. Any interruptions or reduction in the capabilities of these interconnecting pipelines due to testing, line repair, reduced operating pressures, or other causes would result in reduced volumes transported through our terminals. Similarly, if additional shippers begin transporting volume over interconnecting pipelines, the allocations to our existing shippers on these interconnecting pipelines could be reduced, which also could reduce volumes transported through our terminals. Allocation reductions of this nature are not infrequent and are beyond our control. In addition, if the costs to us or our storage service customers to access and transport on these third-party pipelines significantly increase, our profitability could be reduced. Any such increases in cost, interruptions or allocation reductions that, individually or in the aggregate, are material or continue for a sustained period of time could have a material adverse effect on our financial position, results of operations or cash flows.

If we are unable to diversify our assets and geographic locations, our ability to make distributions to our unitholders could be adversely affected.

We rely exclusively on sales generated from products distributed from the terminals we own, which are exclusively located in the Gulf Coast region. Due to our lack of diversification in asset type and location, an adverse development in these businesses or areas, including adverse developments due to catastrophic events or weather and decreases in demand for refined petroleum products, could have a significantly greater impact on our results of operations and cash available for distribution to our unitholders than if we maintained more diverse assets and locations.

Mergers among our customers and competitors could result in lower volumes being stored in or distributed through our terminals, thereby reducing the amount of cash we generate.

Mergers between our existing customers and our competitors could provide strong economic incentives for the combined entities to utilize their existing systems instead of ours in those markets where the systems compete. As a result, we could lose some or all of the volumes and associated revenues from these customers and we could experience difficulty in replacing those lost volumes and revenues. Because most of our operating costs are fixed, a reduction in volumes would result not only in less revenue, but also a decline in cash flow of a similar magnitude, which would adversely affect our results of operations, financial position or cash flows, as well as our ability to pay cash distributions.

We may incur significant costs and liabilities in complying with stringent environmental and occupational health and safety laws and regulations.

Our operations involve the transport and storage of crude oil, refined petroleum products and liquefied petroleum gas and are subject to federal, state, and local laws and regulations governing the release of materials into the environment, occupational health and safety aspects of our operations, and otherwise relating to the protection of the environment. Compliance with this complex array of federal, state, and local laws and regulations is difficult and may require significant capital expenditures and operating costs to mitigate or prevent pollution. Moreover, our business is subject to accidental spills, discharges or other releases of refined petroleum products or crude oil, hazardous substances or wastes into the environment and neighboring areas, in which events joint and several, strict liability may be imposed against us under certain environmental laws for costs required to remediate and restore impacted properties, for claims made by neighboring landowners and other third parties for personal injury, natural resource and property damages, and for costs required to conduct health studies. Failure to comply with applicable environmental, health, and safety laws and regulations may result in the assessment of sanctions, including administrative, civil or

criminal penalties, permit revocations, remedial obligations and injunctions limiting or prohibiting some or all of our operations.

New laws and regulations, amendment of existing laws and regulations, increased government enforcement or other developments could require us to make additional unforeseen expenditures. Many of these laws and regulations are becoming increasingly stringent, and the cost of compliance with these requirements can be expected to increase

over time. We are not able to predict the impact of new or changed laws or regulations or how such legal requirements are interpreted or enforced, but any such expenditures or costs for environmental and occupational health and safety compliance could have a material adverse effect on our results of operations, financial condition and profitability.

We could incur significant costs and liabilities in responding to contamination that occurs at our facilities.

There is inherent risk of incurring significant environmental costs and liabilities in our operations due to our handling of petroleum hydrocarbons, hazardous substances and wastes, because of air emissions and water discharges related to our operations, and as a result of historical operations and waste disposal practices of prior owners of our facilities. Our pipeline and terminal facilities have been used for transportation, storage and distribution of crude oil, refined petroleum products and liquefied petroleum gas for many years. Although we have utilized operating and disposal practices that were standard in the industry at the time, refined petroleum products or crude oil, hydrocarbons, hazardous substances and wastes from time to time have been spilled or released on or under the terminal properties. In addition, the terminal properties were previously owned and operated by other parties and those parties from time to time also have spilled or released refined petroleum products or crude oil, hydrocarbons, hazardous substances or wastes. The terminal properties are subject to federal, state and local laws that impose investigatory and remedial obligations, some of which are joint and several or strict liability obligations without regard to fault, to address and prevent environmental contamination. We may incur significant costs and liabilities in responding to any soil and groundwater contamination that occurs on our properties, even if the contamination was caused by prior owners and operators of our facilities. We may not be able to recover some or any of these costs from insurance or other sources of indemnity. To the extent that the costs associated with meeting any or all of these requirements are substantial and not adequately provided for, there could be a material adverse effect on our business, financial condition and results of operations.

Climate change legislation or regulations restricting emissions of GHGs could result in increased operating and capital costs and reduced demand for our storage services.

In 2009, the EPA adopted rules for establishing a reporting program for emissions of GHGs from specified large GHG emissions sources in the United States and subsequently expanded the scope of this rule to include the reporting of GHG emissions from onshore oil and natural gas processing, transmission, storage and distribution facilities. Operators of covered sources in the United States must annually monitor and report these GHG emissions to specified governmental agencies, with operators in Texas reporting to the EPA. Certain of our facilities may become subject to the federal GHG reporting requirements because of combustion GHG emissions and potential fugitive emissions that exceed reporting thresholds. If we were required to comply with this reporting program, it would increase our operating costs.

Following its determination in December 2009 that emissions of GHGs present a danger to public health and the environment, the EPA promulgated regulations in 2010 establishing Title V and Prevention of Significant Deterioration (“PSD”) permitting requirements for large sources of GHGs. In the absence of any control requirements for GHGs for our facilities that would need to be incorporated into existing Title V permits, we believe the impact of these permitting requirements on our facilities will not be material. However, we may be required to install “best available control technology” to limit emissions of GHGs from any new or significantly modified facilities that we may seek to construct in the future if they would otherwise emit large volumes of GHGs. Best available control technology is determined on a case-by-case basis by the relevant permitting agency to date, whether EPA or state. PSD permits with GHG emissions limitations have generally required efficient combustion requirements on sources that burn large volumes of fossil fuels rather than post-combustion GHG capture requirements. If the EPA imposes efficient combustion requirements, we do not anticipate that they will have a material adverse effect on the cost of our operations.

While the federal Congress has from time to time considered legislation to reduce emissions of GHGs, there has not been significant activity in the form of adopted legislation to reduce GHG emissions at the federal level in recent years. In the absence of federal climate legislation in the U.S., a number of states, excluding Texas, and regional efforts have emerged that are aimed at tracking and/or reducing GHG emissions. Two of the more significant non-federal GHG programs are the Regional Greenhouse Gas Initiative ("RGGI") located in the Northeast United States, and California's cap-and-trade program. We currently do not conduct operations in California or the areas covered by

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RGGI. Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address GHG emissions would impact our business, any such future laws and regulations could result in increased compliance costs or additional operating restrictions, and could have a material adverse effect on our business, financial condition, demand for our services, results of operations and cash flows.

Finally, should Congress undertake comprehensive tax reform in the coming year, it is possible that such reform will include a carbon tax. A carbon tax could impose additional direct costs on our operations and reduce demand for refined products. The ultimate impact of any carbon tax on our operations would further depend upon whether a carbon tax supplanted the other federal GHG regulations to which we are currently subject or is administered as an additional program.

Terrorist attacks aimed at our facilities or surrounding areas could adversely affect our business.

The U.S. government has issued warnings that energy assets, specifically the nation’s pipeline and terminal infrastructure, may be the future targets of terrorist organizations. In addition to the threat of terrorist attacks, we face various other security threats, including cyber-security threats to gain unauthorized access to sensitive information or to render data or systems unusable. Cyber-security attacks in particular are evolving and include but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. Any terrorist attack at our facilities, those of our customers and, in some cases, those of other pipelines, refineries or terminals could materially and adversely affect our financial condition, results of operations or cash flows.

We rely upon certain critical information systems for the operation of our business, and the failure of any critical information system may result in harm to our business.

We are heavily dependent on our technology infrastructure and maintain and rely upon certain critical information systems for the effective operation of our business. These information systems include data network and telecommunications, internet access and our websites, and various computer hardware equipment and software applications, including those that are critical to the safe operation of our pipelines and terminals. These information systems are subject to damage or interruption from a number of potential sources including natural disasters, software viruses or other malware, power failures, cyber-attacks and other events. To the extent that these information systems are under our control, we have implemented measures, such as virus protection software, intrusion detection systems and emergency recovery processes to address the outlined risks. However, security measures for information systems cannot be guaranteed to be failsafe. Any compromise of our data security or our inability to use or access these information systems at critical points in time could unfavorably impact the timely and efficient operation of our business and subject us to additional costs and liabilities, which could adversely affect our results of operations. Finally, federal legislation relating to cyber-security threats may be enacted that could impose additional requirements on our operations.

Risks Relating to Our Structure

OTA owns and controls our general partner, which has sole responsibility for conducting our business and managing our operations. Our general partner and its affiliates, including OTA, have conflicts of interest with us and limited fiduciary duties, and they may favor their own interests to the detriment of us and our unitholders.

OTA owns and controls our general partner and appoints all of the directors of our general partner. Although our general partner has a fiduciary duty to manage us in a manner beneficial to us and our unitholders, the executive officers and directors of our general partner have a fiduciary duty to manage our general partner in a manner

beneficial to OTA. Therefore, conflicts of interest may arise between OTA and its affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. In resolving these conflicts of interest, our general partner may favor its own interests and the interests of its affiliates over the interests of our common unitholders. These conflicts include the following situations, among others:

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- our general partner is allowed to take into account the interests of parties other than us, such as OTA, in resolving conflicts of interest, which has the effect of limiting its fiduciary duty to our unitholders;
- neither our partnership agreement nor any other agreement requires OTA to pursue a business strategy that favors us;
- our partnership agreement limits the liability of and reduces fiduciary duties owed by our general partner and also restricts the remedies available to unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty;
- except in limited circumstances, our general partner has the power and authority to conduct our business without unitholder approval;
- our general partner determines the amount and timing of asset purchases and sales, borrowings, issuances of additional partnership securities and the level of reserves, each of which can affect the amount of cash that is distributed to our unitholders;
- our general partner determines the amount and timing of any capital expenditure and whether a capital expenditure is classified as a maintenance capital expenditure, which reduces operating surplus, or an expansion capital expenditure, which does not reduce operating surplus. Our partnership agreement does not set a limit on the amount of maintenance capital expenditures that our general partner may incur. This determination can affect the amount of cash that is distributed to our unitholders which, in turn, may affect the ability of the subordinated units to convert;
- our general partner may cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units, to make incentive distributions or to accelerate the expiration of the subordination period;
- our partnership agreement permits us to distribute up to $30.0 million as operating surplus, even if it is generated from asset sales, non-working capital borrowings or other sources that would otherwise constitute capital surplus. This cash may be used to fund distributions on our subordinated units or the IDRs;
- our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with its affiliates on our behalf;
- our general partner intends to limit its liability regarding our contractual and other obligations;
- our general partner may exercise its right to call and purchase common units if it and its affiliates own more than 80% of the common units;
- our general partner controls the enforcement of obligations that it and its affiliates owe to us;
- our general partner decides whether to retain separate counsel, accountants or others to perform services for us; and
- our general partner may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to our general partner's IDRs without the approval of the conflicts committee of the board of directors of our general partner or the unitholders. This election may result in lower distributions to the common unitholders in certain situations.

In addition, we may compete directly with entities in which OTA has an interest for acquisition opportunities and potentially will compete with these entities for new business or extensions of the existing services provided by us.

Our general partner intends to limit its liability regarding our obligations.

Our general partner intends to limit its liability under contractual arrangements so that the counterparties to such arrangements have recourse only against our assets, and not against our general partner or its assets. Our general partner may therefore cause us to incur indebtedness or other obligations that are nonrecourse to our general partner. Our partnership agreement provides that any action taken by our general partner to limit its liability is not a breach of our general partner's fiduciary duties, even if we could have obtained more favorable terms without the limitation on liability. In addition, we are obligated to reimburse or indemnify our general partner to the extent that it incurs obligations on our behalf. Any such reimbursement or indemnification payments would reduce the amount of cash otherwise available for distribution to our unitholders.

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Our partnership agreement requires that we distribute all of our available cash, which could limit our ability to grow and make acquisitions.

We expect that we will distribute all of our available cash to our unitholders and will rely primarily upon external financing sources, including commercial bank borrowings, borrowings from Oiltanking Finance B.V. and the issuance of debt and equity securities, to fund our acquisitions and expansion capital expenditures. As a result, to the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow.

In addition, because we distribute all of our available cash, our growth may not be as fast as that of businesses that reinvest their available cash to expand ongoing operations. To the extent we issue additional units in connection with any acquisitions or expansion capital expenditures, the payment of distributions on those additional units may increase the risk that we will be unable to maintain or increase our per unit distribution level. There are no limitations in our partnership agreement or in our revolving line of credit on our ability to issue additional units, including units ranking senior to the common units. The incurrence of additional commercial borrowings or other debt to finance our growth strategy would result in increased interest expense, which, in turn, may impact the available cash that we have to distribute to our unitholders.

Our partnership agreement limits our general partner's fiduciary duties to holders of our common and subordinated units.

Our partnership agreement contains provisions that modify and reduce the fiduciary standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner, or otherwise free of fiduciary duties to us and our unitholders. This entitles our general partner to consider only the interests and factors that it desires and relieves it of any duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or our limited partners. Examples of decisions that our general partner may make in its individual capacity include:

- how to allocate business opportunities among us and its affiliates;
- whether to exercise its limited call right;
- how to exercise its voting rights with respect to the units it owns;
- whether to exercise its registration rights;
- whether to elect to reset target distribution levels; and
- whether to consent to any merger or consolidation of the partnership or amendment to the partnership agreement.

By purchasing a common unit, a unitholder is treated as having consented to the provisions in the partnership agreement, including the provisions discussed above.

Our partnership agreement restricts the remedies available to holders of our common and subordinated units for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that restrict the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty under state fiduciary duty law. For example, our partnership agreement provides that:

- whenever our general partner makes a determination or takes, or declines to take, any other action in its capacity as our general partner, our general partner is required to make such determination, or take or decline to take such other action, in good faith, and will not be subject to any other or different standard imposed by our partnership agreement,

Delaware law, or any other law, rule or regulation, or at equity;

- our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning that it believed that the decision was in the best interest of our partnership;

- our general partner and its officers and directors will not be liable for monetary damages to us or our limited partners resulting from any act or omission unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or its officers and directors, as the case may be, acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that the conduct was criminal; and
- our general partner will not be in breach of its obligations under the partnership agreement or its fiduciary duties to us or our limited partners if a transaction with an affiliate or the resolution of a conflict of interest is:

(1) approved by the conflicts committee of the board of directors of our general partner, although our general partner is not obligated to seek such approval;

(2) approved by the vote of a majority of the outstanding common units, excluding any common units owned by our general partner and its affiliates;

(3) on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or

(4) fair and reasonable to us, taking into account the totality of the relationships among the parties involved, including other transactions that may be particularly favorable or advantageous to us.

In connection with a situation involving a transaction with an affiliate or a conflict of interest, any determination by our general partner must be made in good faith. If an affiliate transaction or the resolution of a conflict of interest is not approved by our common unitholders or the conflicts committee and the board of directors of our general partner determines that the resolution or course of action taken with respect to the affiliate transaction or conflict of interest satisfies either of the standards set forth in subclauses (3) and (4) above, then it will be presumed that, in making its decision, the board of directors acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption.

OTA and other affiliates of our general partner may compete with us.

Our partnership agreement provides that our general partner will be restricted from engaging in any business activities other than acting as our general partner and those activities incidental to its ownership interest in us. Affiliates of our general partner, including OTA and the Oiltanking Group, are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us. The Oiltanking Group and OTA currently hold substantial interests in other companies in the terminaling business. OTA and the Oiltanking Group make investments and purchase entities that acquire, own and operate terminaling businesses. These investments and acquisitions may include entities or assets that we would have been interested in acquiring. Therefore, OTA and the Oiltanking Group may compete with us for investment opportunities and OTA and the Oiltanking Group may own an interest in entities that compete with us.

Pursuant to the terms of our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, does not apply to our general partner or any of its affiliates, including its executive officers and directors and OTA. Any such person or entity that becomes aware of a potential transaction, agreement, arrangement or other matter that may be an opportunity for us will not have any duty to communicate or offer such opportunity to us. Any such person or entity will not be liable to us or to any limited partner for breach of any fiduciary duty or other duty by reason of the fact that such person or entity pursues or acquires such opportunity for itself, directs such opportunity to another person or entity or does not communicate such opportunity or information to us. This may create actual and potential conflicts of interest between us and affiliates of our general partner and result in less than favorable treatment of us and our unitholders.

Our general partner may elect to cause us to issue common units to it in connection with a resetting of the target distribution levels related to its IDRs, without the approval of the conflicts committee of its board of directors or the holders of our common units. This could result in lower distributions to holders of our common units.

Our general partner has the right, at any time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48.0%, in addition to distributions paid on its 2.0%

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general partner interest) for each of the prior four consecutive whole fiscal quarters, to reset the initial target distribution levels at higher levels based on our cash distributions at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution will be adjusted to equal the reset minimum quarterly distribution, and the target distribution levels will be reset to correspondingly higher levels based on the same percentage increases above the reset minimum quarterly distribution as the current target distribution levels.

If our general partner elects to reset the target distribution levels, it will be entitled to receive a number of common units and a general partner interest necessary to maintain its general partner interest in us immediately prior to the reset election. The number of common units to be issued to our general partner will equal the number of common units which would have entitled the holder to an average aggregate quarterly cash distribution in such prior two quarters equal to the average of the distributions to our general partner on the IDRs in the prior two quarters. We anticipate that our general partner would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distributions per common unit without such conversion. It is possible, however, that our general partner could exercise this reset election at a time when it is experiencing, or expects to experience, declines in the cash distributions it receives related to its IDRs and may, therefore, desire to be issued common units rather than retain the right to receive incentive distributions based on the initial target distribution levels. As a result, a reset election may cause our common unitholders to experience a reduction in the amount of cash distributions that our common unitholders would have otherwise received had we not issued new common units to our general partner in connection with resetting the target distribution levels.

Holders of our common units have limited voting rights and are not entitled to elect our general partner or its directors, which could reduce the price at which our common units will trade.

Unlike the holders of common stock in a corporation, our unitholders will have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management’s decisions regarding our business. Our unitholders will have no right on an annual or ongoing basis to elect our general partner or its board of directors. The board of directors of our general partner, including the independent directors, is chosen entirely by OTA, as a result of it owning our general partner, and not by our unitholders. Unlike publicly traded corporations, we will not conduct annual meetings of our unitholders to elect directors or conduct other matters routinely conducted at annual meetings of stockholders of corporations. As a result of these limitations, the price at which the common units trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

Even if holders of our common units are dissatisfied, they cannot remove our general partner without its consent.
If our unitholders are dissatisfied with the performance of our general partner, they will have limited ability to remove our general partner. Unitholders will be unable to remove our general partner without its consent because our general partner and its affiliates own sufficient units to be able to prevent its removal. The vote of the holders of at least 66 2/3% of all our outstanding common and subordinated units voting together as a single class is required to remove our general partner. OTA owns, directly or indirectly, an aggregate of 70.4% of our common and subordinated units. Also, if our general partner is removed without cause during the subordination period and no units held by the holders of our subordinated units or their affiliates are voted in favor of that removal, all remaining subordinated units will automatically be converted into common units and any existing arrearages on the common units will be extinguished. Cause is narrowly defined in our partnership agreement to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding our general partner liable for actual fraud or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of the business.

Our general partner interest or the control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of our unitholders. Furthermore, our partnership agreement does not restrict the ability of the members of our general partner to transfer their respective membership interests in our general partner to a third party. The new members of our general partner would then be in a position to replace the board of directors and executive officers of our general partner with their own designees and thereby exert significant control

over the decisions taken by the board of directors and executive officers of our general partner. This effectively permits a "change of control" without the vote or consent of the unitholders.

Our general partner has a limited call right that may require unitholders to sell their common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price equal to the greater of (i) the average of the daily closing price of the common units over the 20 trading days preceding the date three days before notice of exercise of the call right is first mailed and (ii) the highest per-unit price paid by our general partner or any of its affiliates for common units during the 90-day period preceding the date such notice is first mailed. As a result, unitholders may be required to sell their common units at an undesirable time or price and may not receive any return or a negative return on their investment. Unitholders may also incur a tax liability upon a sale of their units. Our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon exercise of the limited call right. There is no restriction in our partnership agreement that prevents our general partner from issuing additional common units and exercising its call right. If our general partner exercised its limited call right, the effect would be to take us private and, if the units were subsequently deregistered, we would no longer be subject to the reporting requirements of the Exchange Act. OTA owns, directly or indirectly, an aggregate of 40.9% of our common units. At the end of the subordination period, assuming no additional issuances of units (other than upon the conversion of the subordinated units), OTA will own 70.4% of our common units.

We may issue additional units without unitholder approval, which would dilute existing unitholder ownership interests.

Our partnership agreement does not limit the number of additional limited partner interests we may issue at any time without the approval of our unitholders. The issuance of additional common units or other equity interests of equal or senior rank will have the following effects:

- our existing unitholders' proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;
- the ratio of taxable income to distributions may increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

The market price of our common units could be adversely affected by sales of substantial amounts of our common units in the public or private markets, including sales by OTA or other large holders.

We have 19,449,901 common units and 19,449,901 subordinated units outstanding. All of the 19,449,901 subordinated units will convert into common units on a one-for-one basis at the end of the subordination period. Sales by OTA or other large holders of a substantial number of our common units in the public markets, or the perception that such sales might occur, could have a material adverse effect on the price of our common units or could impair our ability to obtain capital through an offering of equity securities. In addition, we have provided registration rights to OTA. Under our partnership agreement, our general partner and its affiliates have registration rights relating to the offer and sale of any units that they hold, subject to certain limitations.

Our partnership agreement restricts the voting rights of unitholders owning 20% or more of our common units.

Our partnership agreement restricts unitholders’ voting rights by providing that any units held by a person or group that owns 20% or more of any class of units then outstanding, other than our general partner and its affiliates, their

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transferees and persons who acquired such units with the prior approval of the board of directors of our general partner, cannot vote on any matter.

Payments due to our general partner and its affiliates for services provided to us or on our behalf will reduce cash available for distribution to our unitholders. The amount and timing of such payments will be determined by our general partner.

Prior to making any distribution on the common units, we compensate our general partner and its affiliates pursuant to the Services Agreement. Our partnership agreement provides that our general partner will determine in good faith the expenses that are allocable to us but does not otherwise limit the amount of expenses for which our general partner and its affiliates may be compensated. Under the Services Agreement, we have an agreed upon fixed fee associated with certain specified selling, general and administrative services necessary to run our business that are provided to us by OTA. These expenses include expenses of non-executive employees, including general and administrative overhead costs, salary, bonus, incentive compensation and other compensation amounts and executive officer expenses, including general and administrative overhead costs, salary, bonus, incentive compensation and other compensation amounts. The compensation for expenses and payment of fees to our general partner and its affiliates will reduce the amount of available cash to pay cash distributions to our unitholders.

The amount of cash we have available for distribution to holders of our units depends primarily on our cash flow and not solely on profitability, which may prevent us from making cash distributions during periods when we record net income.

The amount of cash we have available for distribution depends primarily upon our cash flow, including cash flow from reserves and working capital or other borrowings, and not solely on profitability, which will be affected by non-cash items. As a result, we may pay cash distributions during periods when we record net losses for financial accounting purposes and may not pay cash distributions during periods when we record net income.

While our partnership agreement requires us to distribute all of our available cash, our partnership agreement, including provisions requiring us to make cash distributions contained therein, may be amended.

While our partnership agreement requires us to distribute all of our available cash, our partnership agreement, including provisions requiring us to make cash distributions contained therein, may be amended. Our partnership agreement generally may not be amended during the subordination period without the approval of our public common unitholders. However, our partnership agreement can be amended with the consent of our general partner and the approval of a majority of the outstanding common units (including common units held by OTA) after the subordination period has ended. OTA owns, directly or indirectly, approximately 40.9% of the outstanding common units and all of our outstanding subordinated units.

Unitholders may have liability to repay distributions and in certain circumstances may be personally liable for the obligations of the partnership.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act (“Delaware Act”), we may not make a distribution to our unitholders if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. A purchaser of units who becomes a limited partner is liable for the obligations of the transferring limited partner to make contributions to the partnership that are known to the purchaser of units at the time it became a limited partner and for unknown obligations if the liabilities could be

determined from the partnership agreement. Liabilities to partners on account of their partnership interests and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

It may be determined that the right, or the exercise of the right by the limited partners as a group, to (i) remove or replace our general partner, (ii) approve some amendments to our partnership agreement or (iii) take other action under

our partnership agreement constitutes “participation in the control” of our business. A limited partner that participates in the control of our business within the meaning of the Delaware Act may be held personally liable for our obligations under the laws of Delaware, to the same extent as our general partner. This liability would extend to persons who transact business with us under the reasonable belief that the limited partner is a general partner. Neither our partnership agreement nor the Delaware Act specifically provides for legal recourse against our general partner if a limited partner were to lose limited liability through any fault of our general partner.

The NYSE does not require a publicly traded partnership like us to comply with certain of its corporate governance requirements.

Because we are a publicly traded partnership, the NYSE does not require us to have a majority of independent directors on our general partner’s board of directors or to establish a compensation committee or a nominating and corporate governance committee. Accordingly, unitholders will not have the same protections afforded to certain corporations that are subject to all of the NYSE corporate governance requirements.

The amount of estimated maintenance capital expenditures our general partner is required to deduct from operating surplus each quarter could increase in the future, resulting in a decrease in available cash from operating surplus that could be distributed to our unitholders.

Our partnership agreement requires our general partner to deduct from operating surplus each quarter estimated maintenance capital expenditures as opposed to actual maintenance capital expenditures in order to reduce disparities in operating surplus caused by fluctuating maintenance capital expenditures. Our annual estimated maintenance capital expenditures for purposes of calculating operating surplus is approximately $8.0 million for 2013. This amount is based on our current estimates of the amounts of expenditures we will be required to make in the future to maintain our long-term operating capacity, which we believe to be reasonable. Our partnership agreement does not cap the amount of maintenance capital expenditures that our general partner may estimate. The amount of our estimated maintenance capital expenditures may be more than our actual maintenance capital expenditures, which will reduce the amount of available cash from operating surplus that we would otherwise have available for distribution to unitholders . The amount of estimated maintenance capital expenditures deducted from operating surplus is subject to review and change by the board of directors of our general partner at least once a year, with any change approved by the conflicts committee. In addition to estimated maintenance capital expenditures, reimbursement of expenses incurred by our general partner and its affiliates will reduce the amount of available cash from operating surplus that we would otherwise have available for distribution to our unitholders.

Tax Risks to Unitholders

Our tax treatment depends on our status as a partnership for U.S. federal income tax purposes. If the Internal Revenue Service (“IRS”) were to treat us as a corporation for federal income tax purposes or we were to become subject to material additional amounts of entity-level taxation for state tax purposes, then our cash available for distribution to unitholders could be substantially reduced.

The anticipated after-tax economic benefit of an investment in our common units depends largely on our being treated as a partnership for U.S. federal income tax purposes. A publicly traded partnership such as us may be treated as a corporation for U.S. federal income tax purposes unless it satisfies a “qualifying income” exception.

Failing to meet the qualifying income requirement or a change in current law may cause us to be treated as a corporation for federal income tax purposes. If we were subject to federal income tax as a corporation, our cash available to pay distributions would be reduced. Therefore, our treatment as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to our common unitholders, likely causing a substantial

reduction in the value of our common units.

Our partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local

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income tax purposes, the minimum quarterly distribution amount and the target distribution amounts may be adjusted to reflect the impact of that law on us.

If we were subjected to a material amount of additional entity-level taxation by individual states, then our cash available for distribution to you would be substantially reduced.

Future changes in current state law may subject us to additional entity-level taxation by individual states. Because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. Imposition of any such taxes may substantially reduce our cash available for distribution to our unitholders. Our partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to additional amounts of entity-level taxation, then the initial quarterly distribution may be adjusted to reflect the impact of that law on us.

The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The present U.S. federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time. For example, members of Congress have recently considered substantive changes to the existing federal income tax laws that affect publicly traded partnerships. Any modification to the U.S. federal income tax laws and interpretations thereof may be applied retroactively and could make it more difficult or impossible to meet the exception for certain publicly traded partnerships to be treated as partnerships for U.S. federal income tax purposes. Although the considered legislation would not appear to have affected our treatment as a partnership, we are unable to predict whether any of these changes, or other proposals will be reintroduced or will ultimately be enacted. Any such changes could negatively impact the value of an investment in our common units.

Unitholders will be required to pay taxes on their share of our income even if the unitholder does not receive any cash distributions from us.

Because our unitholders are treated as partners to whom we allocate taxable income that could be different in amount than the cash we distribute, unitholders will be required to pay any federal income taxes and, in some cases, state and local income taxes on their share of our taxable income whether or not the unitholder receives cash distributions from us. Unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from that income.

Oiltanking Beaumont Specialty Products, LLC (“OTBSP”), one of our subsidiaries, conducts activities that may not generate qualifying income. If the income generated by this subsidiary disproportionately increases as a percentage of our total gross income, we may choose to have this subsidiary treated as a corporation for U.S. federal income tax purposes.

In order to maintain our status as a partnership for U.S. federal income tax purposes, 90% or more of our gross income in each tax year must be qualifying income under Section 7704 of the Internal Revenue Code. A small portion of our current business relates to the transportation and storage of specialty products that may not generate qualifying income. In an attempt to ensure that 90% or more of our gross income in each tax year is qualifying income, we conduct the portion of our business related to these specialty products in OTBSP. Currently, this subsidiary represents approximately 7% of our total gross income. If the income generated by this subsidiary disproportionately increases as a percentage of our total gross income, we may choose to have this subsidiary treated as a corporation for U.S. federal income tax purposes. In such case, this subsidiary would be subject to corporate-level tax on its taxable income at the

applicable federal corporate income tax rate (currently, 35%). Imposition of a corporate level tax would reduce the anticipated cash available for distribution to us from OTBSP's assets and operations and, in turn, would reduce our cash available for distribution to our unitholders. Moreover, if the IRS were to successfully assert that this subsidiary had more tax liability than we would currently anticipate or legislation was enacted that increased the corporate tax rate, our cash available for distribution to our unitholders would be further reduced.

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The sale or exchange of 50% or more of our capital and profits interests during any twelve-month period will result in the termination of our partnership for federal income tax purposes.

We will be considered to have terminated our partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. OTA owns, directly and indirectly, more than 50% of the total interests in our capital and profits interests. Therefore, a transfer by OTA of all or a portion of its interests in us could result in a termination of our partnership for federal income tax purposes. Our termination would, among other things, result in the closing of our taxable year for all unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may also result in more than twelve months of our taxable income or loss being includable in his taxable income for the year of termination. Our termination currently would not affect our classification as a partnership for federal income tax purposes, but instead, we would be treated as a new partnership for federal income tax purposes. If treated as a new partnership, we must make new tax elections and could be subject to penalties if we are unable to determine that a termination occurred.

Tax gain or loss on the disposition of our common units could be more or less than expected.

If you sell your common units, you will recognize a gain or loss equal to the difference between the amount realized and your tax basis in those common units. Because distributions in excess of your allocable share of our net taxable income decrease your tax basis in your common units, the amount, if any, of such prior excess distributions with respect to the units you sell will, in effect, become taxable income to you if you sell such units at a price greater than your tax basis in those units, even if the price you receive is less than your original cost. Furthermore, a substantial portion of the amount realized, whether or not representing gain, may be taxed as ordinary income due to potential recapture items, including depreciation recapture. In addition, because the amount realized includes a unitholder's share of our nonrecourse liabilities, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

Tax-exempt entities and non-U.S. persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, such as employee benefit plans and individual retirement accounts ("IRAs"), and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file U.S. federal tax returns and pay tax on their share of our taxable income. If you are a tax-exempt entity or a non-U.S. person, you should consult your tax advisor before investing in our common units.

If the IRS contests the federal income tax positions we take, the market for our common units may be adversely impacted and the cost of any IRS contest will reduce our cash available for distribution to unitholders.

The IRS may adopt positions that differ from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we take. A court may not agree with some or all of the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. Our costs of any contest with the IRS will be borne indirectly by our unitholders and our general partner because the costs will reduce our cash available for distribution.

We treat each purchaser of our common units as having the same tax benefits without regard to the actual common units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Because we cannot match transferors and transferees of common units, we will adopt depreciation and amortization positions that may not conform to all aspects of existing Treasury Regulations. A successful IRS challenge to those

positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from your sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns.

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The IRS may challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

We generally prorate our items of income, gain, loss and deduction between transferors and transferees of our common units each month based upon the ownership of our common units on the first day of each month, instead of on the basis of the date a particular common unit is transferred. Nonetheless, we allocate certain deductions for depreciation of capital additions based upon the date the underlying property is placed in service. The use of this proration method may not be permitted under existing Treasury Regulations, and although the U.S. Treasury Department issued proposed Treasury Regulations allowing a similar monthly simplifying convention, such regulations are not final and do not specifically authorize the use of the proration method we have adopted. Accordingly, our counsel is unable to opine as to the validity of this method. If the IRS were to successfully challenge our proration method, we may be required to change the allocation of items of income, gain, loss, and deduction among our unitholders.

A unitholder whose common units are loaned to a “short seller” to cover a short sale of common units may be considered as having disposed of those common units. If so, he would no longer be treated for tax purposes as a partner with respect to those common units during the period of the loan and may recognize gain or loss from the disposition.

Because there is no tax concept of loaning a partnership interest, a unitholder whose common units are loaned to a “short seller” to cover a short sale of common units may be considered as having disposed of the loaned units. In that case, he may no longer be treated for tax purposes as a partner with respect to those common units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those common units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those common units could be fully taxable as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller should modify any applicable brokerage account agreements to prohibit their brokers from borrowing their common units.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Information regarding our properties is contained in Item 1. Business — Assets and Areas of Operations and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. Legal Proceedings

In the ordinary course of business, we may be involved in various claims and legal proceedings, some of which are covered in whole or in part by insurance. We may not be able to predict the timing or outcome of these or future claims and proceedings with certainty, and an unfavorable resolution of one or more of such matters could have a material adverse effect on our results of operations, financial condition or cash flows. Currently, we are not party to

any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our results of operations, financial condition or cash flows.

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Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common units are listed and traded on the NYSE under the symbol "OILT." Our common units began trading on July 15, 2011, at an initial offering price of $21.50 per unit. Prior to July 15, 2011, our equity securities were not listed on any exchange and there was no public market for our units. The following table sets forth the high and low sales prices per unit for our common units on the NYSE and the cash distributions declared for the periods indicated:

	Common Unit Price Range		Distribution per common and subordinated unit (1)		
2012	High	Low		Record Date	Payment Date
4th Quarter	$38.60	$33.11	$0.39	February 1, 2013	February 14, 2013
3rd Quarter	$41.13	$30.74	$0.375	November 2, 2012	November 14, 2012
2nd Quarter	$31.96	$27.65	$0.36	August 3, 2012	August 14, 2012
1st Quarter	$32.93	$26.57	$0.35	May 3, 2012	May 14, 2012
2011					
4th Quarter	$29.55	$22.11	$0.34	February 3, 2012	February 14, 2012
3rd Quarter (2)	$25.25	$21.75	$0.2678	November 3, 2011	November 14, 2011
2nd Quarter (3)	n/a	n/a	n/a	n/a	n/a
1st Quarter (3)	n/a	n/a	n/a	n/a	n/a

(1) Cash distributions for a quarter are declared and paid in the following quarter. See below for a discussion of our policy regarding distribution payments.
(2) The distribution paid for the third quarter of 2011 represents our minimum quarterly distribution prorated for the period beginning immediately after the closing date of our IPO, July 19, 2011, and ending on September 30, 2011.
(3) Our common units did not commence trading on the NYSE until July 15, 2011.

As of the close of business on March 5, 2013, based upon information received from our transfer agent and brokers and nominees, there were approximately six unitholders of record of our common units. This number does not include unitholders whose units are held in trust by other entities. The actual number of unitholders is greater than the number of holders of record. We have also issued 19,449,901 subordinated units, for which there is no established public trading market. All of the subordinated units are held by affiliates of our general partner. Our general partner and its affiliates receive quarterly distributions on these units only after the minimum quarterly distribution has been paid to the holders of our common units.

We are a publicly traded partnership and are not subject to federal income tax. Instead, unitholders are required to report their allocable share of our income, gain, loss and deduction, regardless of whether we make distributions.

Under the terms of the agreements governing our debt, we are required to maintain certain financial ratios, and in order to comply with these covenants, we may be restricted in our ability to declare or pay distributions to unitholders. As of December 31, 2012, we are in compliance with all of these covenants. See Item 7. Management’s Discussion

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and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources for further information.

Selected Information from our Partnership Agreement

Set forth below is a summary of the significant provisions of our partnership agreement that relate to cash distributions, minimum quarterly distributions and IDRs.

Available Cash

Our partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our available cash (as defined in our partnership agreement) to unitholders of record on the applicable record date. Our partnership agreement generally defines available cash as, for each quarter, cash generated from our business in excess of the amount of cash reserves established by our general partner to provide for the conduct of our business, to comply with applicable law, any of our debt instruments or other agreements or to provide for future distributions to our unitholders for any one or more of the next four quarters. Our available cash also may include, if our general partner so determines, all or any portion of the cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made subsequent to the end of such quarter. Working capital borrowings generally include borrowings made under a credit agreement, commercial paper facility or similar financing arrangement.

Minimum Quarterly Distribution

Our partnership agreement provides that, during the subordination period, holders of the common units will have the right to receive distributions of available cash from operating surplus each quarter in an amount equal to $0.3375 per common unit, which amount is defined in our partnership agreement as the minimum quarterly distribution, plus any arrearages in the payment of the minimum quarterly distribution to holders of the common units from prior quarters, before any distributions of available cash from operating surplus may be made to holders of the subordinated units. These units are deemed “subordinated” because for a period of time, referred to as the subordination period, holders of the subordinated units will not be entitled to receive any distributions from operating surplus until holders of the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Furthermore, no arrearages will be paid on the subordinated units. The practical effect of the subordinated units is to increase the likelihood that during the subordination period there will be sufficient available cash from operating surplus to pay the minimum quarterly distribution on the common units.

General Partner Interest and IDRs

Our partnership agreement provides that our general partner initially will be entitled to 2.0% of all distributions that we make prior to our liquidation. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its 2.0% general partner interest if we issue additional units. Our general partner’s 2.0% interest, and the percentage of our cash distributions to which it is entitled, will be proportionately reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us in order to maintain its 2.0% general partner interest. Our partnership agreement does not require our general partner to fund its capital contribution with cash and our general partner may fund its capital contribution with common units or other property.

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

	Target Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		Unitholders	General Partner
Minimum quarterly distribution	$0.3375	98.0%	2.0%
First target distribution	above $0.3375 up to $0.38813	98.0%	2.0%
Second target distribution	above $0.38813 up to $0.42188	85.0%	15.0%
Third target distribution	above $0.42188 up to $0.50625	75.0%	25.0%
Thereafter	above $0.50625	50.0%	50.0%

The table above assumes that our general partner maintains its 2.0% general partner interest, that there are no arrearages on common units and our general partner continues to own the IDRs. The maximum distribution sharing percentage of 50.0% includes distributions paid to the general partner on its 2.0% general partner interest and does not include any distributions that the general partner may receive on common units that it owns or may acquire. Our general partner holds all of our IDRs, but may transfer these rights separately from its general partner interest, subject to restrictions in our partnership agreement.

Issuer Purchases and Unregistered Sales of Equity Securities

None.

Item 6. Selected Financial Data

The following tables set forth, for the periods and at the dates indicated, our selected consolidated financial data for each of the last five years. The consolidated financial data presented as of December 31, 2012, 2011, 2010 and 2009 and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 are derived from our audited historical consolidated financial statements. The consolidated financial data as of December 31, 2008 is derived from unaudited historical combined financial data of our Predecessor. Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The tables should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Report (in thousands, except per unit amounts).

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	Year Ended December 31,				
	2012	2011	2010	2009	2008
Income Statement Data:					
Revenue	$135,497	$117,377	$116,450	$100,840	$79,112
Operating expense	36,025	31,862	32,415	29,158	29,437
Selling, general and administrative expense	18,856	17,985	15,775	13,830	9,709
Depreciation and amortization expense	15,901	15,676	15,579	14,191	12,854
(Gain) loss on disposal of fixed assets	13	544	(339)	96	(4)
Gain on property casualty indemnification (1)	—	(928)	(4,688)	—	—
Loss on impairment of assets	—	—	46	155	213
Operating income (1)	64,702	52,238	57,662	43,410	26,903
Interest expense	(1,654)	(5,438)	(9,538)	(8,401)	(7,356)
Loss on early extinguishment of debt (2)	—	(6,382)	—	—	—
Income tax (expense) benefit (3)	(576)	21,506	(11,483)	(10,482)	(6,166)
Net income (1) (2) (3)	62,645	62,397	37,815	25,116	12,585
Net income subsequent to IPO on July 19, 2011	62,645	23,806			
Key Performance Measures:					
Adjusted EBITDA (4)	80,616	67,530	68,260	57,852	39,966
General partner's interest in net income	1,489	476			
Limited partners' interest in net income	61,156	23,330			
Earnings per common unit – basic and diluted (5)	$1.57	$0.60			
Earnings per subordinated unit – basic and diluted (5)	$1.57	$0.60			
Distributions per unit (6)	$1.425	$0.2678			

	December 31,				
	2012	2011	2010	2009	2008
Balance Sheet Data:					
Total assets	$469,220	$322,035	$310,469	$303,500	$274,838
Total debt, including current portion	149,300	20,800	148,258	164,215	157,072
Total partners' capital	285,928	279,847	104,049	90,096	68,991

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Cash Flow Data:					
Net cash flows provided by (used in):					
Operating activities	$75,254	$56,376	$60,678	$32,253	$27,002
Investing activities	(162,527)	(45,304)	(30,191)	(34,469)	(64,435)
Financing activities	70,508	4,018	(27,597)	3,243	39,558
Capital expenditures	(149,827)	(27,772)	(11,167)	(34,479)	(64,468)

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(1) During the year ended December 31, 2011, we recognized a gain of $0.7 million from proceeds received under an insurance contract relating to damages sustained from a hurricane in 2008. During the years ended December 31, 2011 and 2010, we recognized gains of $0.2 million and $4.7 million, respectively, from proceeds received under an insurance contract relating to damages sustained at a dock facility that was struck by a vessel owned and

operated by a third party during 2008.

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(2) During the year ended December 31, 2011, we recognized a loss of $6.4 million on the repayment of debt, which was repaid with proceeds from our IPO. See Notes 8 and 9 in the Notes to Consolidated Financial Statements.

(3) Upon the change in tax status in connection with our IPO, during the year ended December 31, 2011, we recognized a non-recurring gain of $27.1 million related to the elimination of the deferred tax account balances.

(4) Adjusted EBITDA is not a presentation made in accordance with GAAP. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, "– Adjusted EBITDA" for a reconciliation of Adjusted EBITDA from net income.

(5) The 2011 amounts represent basic and diluted earnings per unit for the period from July 19, 2011 (the closing of our IPO) through December 31, 2011. See Note 1 in the Notes to Consolidated Financial Statements.

(6) Beginning with the quarter ended September 30, 2011, we distributed all of our available cash to unitholders of record on the applicable record date in accordance with our partnership agreement. The minimum quarterly distribution of $0.3375 was pro-rated for the period beginning after July 19, 2011 (the closing of our IPO) through September 30, 2011.

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

The following information should be read in conjunction with our consolidated financial statements and our accompanying notes thereto included in Item 8. Financial Statements and Supplementary Data of this Report. Our discussion and analysis includes the following:

- Overview of Business;
- General Outlook for 2013;
- 2012 Developments and Updates — discusses major items impacting our results in 2012;
- Results of Operations — discusses material year-to-year variances in the consolidated statements of income;
- Liquidity and Capital Resources — addresses available sources of liquidity and capital resources and includes a discussion of our capital spending;
- Critical Accounting Policies and Estimates — presents accounting policies and estimates that are among the most critical to the presentation of our financial position and results of operations; and
- Other Considerations — includes information related to contractual obligations, off-balance sheet arrangements and related party transactions.

This discussion contains forward-looking statements based on current expectations that are subject to risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Our actual results and the timing of events could differ materially from those anticipated or implied by the forward-looking statements discussed here as a result of various factors, including, among others, those set forth under "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" herein. Oiltanking GmbH and its subsidiaries, other than OILT and its subsidiaries, are collectively referred to herein as the "Oiltanking Group." As used in this document, the terms "we," "us," and "our" and similar terms refer to OILT and its subsidiaries, where applicable, unless the context indicates otherwise.

Overview of Business

We are a Delaware limited partnership formed by OTA on March 14, 2011 to engage in the storage, terminaling and transportation of crude oil, refined petroleum products and liquefied petroleum gas. OTA owns and controls our general partner, OTLP GP, LLC. Through OTH and OTB, our wholly owned subsidiaries, we own and operate storage and terminaling assets located along the Gulf Coast of the United States on the Houston, Texas Ship Channel and in Beaumont, Texas. We report in one business segment.

On July 19, 2011, we completed our IPO of 11,500,000 common units, including 1,500,000 common units issued in connection with the underwriters' exercise of their over-allotment option, at a price of $21.50 per unit. Through July 18, 2011, OTH and OTB were wholly owned subsidiaries of OTA. OTA and its affiliates contributed all of their

equity interests in OTH and OTB to us on July 19, 2011, and in exchange, we issued an aggregate of 7,949,901 common units and 19,449,901 subordinated units to OTA and its affiliates, and issued IDRs to our general partner. At December 31,

2012, OTA owned our general partner, 7,949,901 common units and 19,449,901 subordinated units. OTA is a wholly owned subsidiary of Oiltanking GmbH, our German parent company.

Our primary business objective is to generate stable cash flows to enable us to pay quarterly distributions to our unitholders and to increase our quarterly cash distributions over time. We intend to achieve this objective by anticipating long-term infrastructure needs in the areas we serve and by growing our tank terminal network and pipelines through construction in new markets, the expansion of existing facilities and strategic acquisitions.

We operate crude oil and refined petroleum products terminals on the Houston, Texas Ship Channel. At December 31, 2012, our Houston facility has an aggregate active storage capacity of approximately 12.1 million barrels and provides integrated terminaling services to a variety of customers, including major integrated oil companies, marketers, distributors and chemical companies.

Our Beaumont terminal serves as a regional hub for refined petroleum products for refineries located in the Gulf Coast region. At December 31, 2012, this facility has an aggregate active storage capacity of approximately 5.5 million barrels and provides integrated terminaling services to a variety of customers, including major integrated oil companies, distributors, marketers and chemical and petrochemical companies.

General Outlook for 2013

We believe that cash flow in excess of distributions as well as borrowings under our Credit Agreement or other long-term debt agreements with Oiltanking Finance B.V. will enable us to fund our currently anticipated expansion activities for the next several years. However, funding of additional expansion activities or acquisitions may require us to access additional capital resources, which we intend to fund with a balanced combination of equity and debt capital. Although we believe that equity and debt markets will be available to us on reasonable terms based on current market conditions, there can be no assurance that future market conditions will permit us to access capital to fund future acquisition and expansion activities.

We believe the market conditions for crude oil and refined products storage and transportation providers will remain favorable in 2013 as strong trends in North America infrastructure development continue. We believe the continued robust activity in North America unconventional resource plays and changing logistics to transport the gases and liquids to demand markets should continue to drive increased demand for our storage and transportation services. We believe that these continued developments and the impact production will have on the liquids distribution system and major Gulf Coast refining centers should continue to create opportunities for us to use our existing assets and to develop additional infrastructure to meet the growing needs of our customers. In addition, we anticipate increased natural gas liquids production will lead to a higher level of capital investments in the natural gas processing and fractionating sectors, which will in turn drive more demand for the handling and export of liquefied petroleum gases over the next several years.

We believe our stable asset base, long-term contract profile, conservative financial position and economically attractive expansion projects should enable us to continue to grow our cash flows for the next several years. We also believe we are reasonably well positioned to pursue and consummate acquisitions.

There can be no assurance that these opportunities will come to fruition or that we will not be negatively affected by potential volatility or challenging capital markets conditions, or that our acquisition and expansion efforts will be successful. See Item 1A. Risk Factors — Risks Inherent in Our Business.

2012 Developments and Updates

Significant financial highlights during the year ended December 31, 2012, included the following:

- On May 16, 2012, OTH entered into the Loan Agreement for the purpose of financing the purchase of property, plant and equipment with a maturity date of December 15, 2022. At December 31, 2012, OTH had $125.0 million of outstanding borrowings under the Loan Agreement at a fixed interest rate of 4.55%.

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- On November 7, 2012, OILT entered into Addendum No. 2 to its unsecured revolving line of credit agreement with Oiltanking Finance B.V. to increase the amount of the revolving credit commitment from $50.0 million to $150.0 million and to extend the maturity date from June 30, 2013 to November 30, 2017. At December 31, 2012, we had $6.0 million of outstanding borrowings under the revolving line of credit at an interest rate of 2.44%.
- We increased our quarterly distribution to $0.39 per unit for the fourth quarter of 2012, representing a 14.7% increase over the distribution for the fourth quarter of 2011, and our fifth consecutive quarterly increase since going public in the third quarter of 2011.

Significant operational highlights during the year ended December 31, 2012, included the following:

- In April 2012, we placed into service the final 390,000 barrel storage tank that was part of our Houston terminal expansion commenced in 2011. The two other tanks, with an aggregate 655,000 barrels of storage capacity, were placed into service during 2011.
- During the first quarter of 2012, our board of directors approved $11.0 million of spending to extend our previously announced pipeline expansion project into a third-party terminal at Houston. The majority of this additional storage capacity and new pipelines were placed into service in the first quarter of 2013, with one remaining tank expected to be placed into service in the second quarter of 2013.
- On April 16, 2012, we announced approval of an expansion project of approximately $104.0 million to construct approximately 3.2 million barrels of new crude oil storage capacity near our Houston terminal. The project included the purchase of 95 acres of nearby land on which the new capacity is being constructed. During 2012, we spent approximately $47.0 million of the $104.0 million budgeted for the expansion project. We expect to spend the remaining $57.0 million in 2013 and to complete construction of all of the new crude oil storage capacity during the fourth quarter of 2013.
- On September 4, 2012, we announced approval of an approximately $70.0 million project to construct approximately 3.3 million barrels of new crude oil storage capacity near our Houston terminal. We anticipate commencing construction by the beginning of the second quarter of 2013 when all relevant permits are in place. The new storage capacity is expected to be placed into service during the third and fourth quarters of 2014.

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Results of Operations

Our operating results were as follows for the periods indicated (in thousands, except per unit amounts):

	Year Ended December 31,		
	2012	2011	2010
Revenues	$135,497	$117,377	$116,450
Costs and expenses:			
Operating	36,025	31,862	32,415
Selling, general and administrative	18,856	17,985	15,775
Depreciation and amortization	15,901	15,676	15,579
(Gain) Loss on disposal of fixed assets	13	544	(339)
Gain on property casualty indemnification	—	(928)	(4,688)
Loss on impairment of assets	—	—	46
Total costs and expenses	70,795	65,139	58,788
Operating income	64,702	52,238	57,662
Other income (expense):			
Interest expense	(1,654)	(5,438)	(9,538)
Loss on early extinguishment of debt	—	(6,382)	—
Interest income	33	42	74
Other income	140	431	1,100
Total other expense, net	(1,481)	(11,347)	(8,364)
Income before income tax (expense) benefit	63,221	40,891	49,298
Income tax (expense) benefit	(576)	21,506	(11,483)
Net income	$62,645	$62,397	$37,815
Earnings per common unit – basic and diluted (1)	$1.57	$0.60	
Earnings per subordinated unit – basic and diluted (1)	$1.57	$0.60	

(1) Amounts attributable to 2011 are reflective of general and limited partner interest in net income subsequent to the closing of our IPO on July 19, 2011.

Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) before net interest expense, income tax (expense) benefit, depreciation and amortization expense and other income, as further adjusted to exclude certain other non-cash and non-recurring items, such as gains and losses on disposal of fixed assets, property casualty indemnification, early extinguishment of debt and impairment of assets. Adjusted EBITDA is not a presentation made in accordance with GAAP. Adjusted EBITDA is a non-GAAP supplemental financial performance measure that management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies, may use to assess: (i) our financial performance as compared to other publicly traded partnerships in the midstream energy industry, without regard to historical cost basis or financing methods, (ii) the viability of proposed projects and acquisitions and (iii) the overall rates of return on investment in various opportunities. Accordingly, we believe that the presentation of Adjusted EBITDA provides useful information to investors in assessing our results of operations.

The GAAP measure most directly comparable to Adjusted EBITDA is net income. Our non-GAAP financial measure of Adjusted EBITDA should not be considered as an alternative to GAAP measures, such as net income, operating

income, cash flow from operating activities or any other GAAP measure of financial performance. Adjusted EBITDA has important limitations as an analytical tool because it excludes some but not all items that affect net income. You should not consider Adjusted EBITDA in isolation or as a substitute for analysis of our results as reported under

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GAAP. Because Adjusted EBITDA may be defined differently by other companies in our industry, our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies, thereby diminishing its utility.

The following table presents a reconciliation of Adjusted EBITDA from net income, the most directly comparable GAAP financial measure, for the periods indicated (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Reconciliation of Adjusted EBITDA from net income:			
Net income	$62,645	$62,397	$37,815
Depreciation and amortization	15,901	15,676	15,579
Income tax expense (benefit)	576	(21,506)	11,483
Interest expense, net	1,621	5,396	9,464
Loss on early extinguishment of debt	—	6,382	—
(Gain) Loss on disposal of fixed assets	13	544	(339)
Gain on property casualty indemnification	—	(928)	(4,688)
Loss on impairment of assets	—	—	46
Other income	(140)	(431)	(1,100)
Adjusted EBITDA	$80,616	$67,530	$68,260

Operating Data

The following table presents operating data for the periods indicated:

	Year Ended December 31,		
	2012	2011	2010
Storage capacity, end of period (mmbbls) (1)	17.7	17.3	16.8
Storage capacity, average (mmbbls)	17.6	16.8	16.8
Terminal throughput (mbpd) (2)	822.2	771.9	784.9
Vessels per period	879	823	799
Barges per period	3,233	2,509	2,910
Trucks per period (3)	11,307	5,158	—
Rail cars per period (4)	7,979	702	—

(1) Represents million barrels ("mmbbls").
(2) Represents thousands of barrels per day ("mbpd").
(3) Beginning in June 2011, one of our customers began unloading product by truck.
(4) Beginning in November 2011, one of our customers began unloading product by rail car.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Adjusted EBITDA. Adjusted EBITDA for the year ended December 31, 2012 increased by $13.1 million, or 19.4%, to $80.6 million from $67.5 million for the year ended December 31, 2011. The increase in Adjusted EBITDA was primarily attributable to increased revenues of $18.1 million, partially offset by increased operating expenses of $4.2 million and increased selling, general and administrative expenses ("SG&A expenses") of $0.9 million.

Revenues. Revenues for the year ended December 31, 2012 increased by $18.1 million, or 15.4%, to $135.5 million from $117.4 million for the year ended December 31, 2011. The increase in revenues was primarily attributable to additional revenues from the new storage capacity placed into service in December 2011 and in April 2012 and an

escalation in storage fees, resulting in an increase in storage revenues of $9.8 million, higher throughput fee revenue of $5.1 million, primarily attributable to increased liquefied petroleum gas exports during 2012 and an increase in ancillary services fee revenue of $3.2 million, approximately $1.4 million of which relates to revenues from a pipeline-related construction project for a customer that was completed and recognized during 2012.

Operating Expenses. Operating expenses for the year ended December 31, 2012 increased by $4.2 million, or 13.1%, to $36.0 million from $31.9 million for the year ended December 31, 2011. The increase in operating expenses was primarily due to an increase of $2.3 million in operations employee-related costs incurred by OTA and charged to us under the Services Agreement due to increases in benefit costs and higher operational labor in the 2012 period, an increase of $1.9 million in legal, engineering and permitting and licensing fees, an increase of $1.4 million in expenses associated with the pipeline-related construction project discussed above and an increase of $0.3 million in insurance costs. These increases in operating expenses were partially offset by a decrease of $1.2 million in power and fuel costs due to re-negotiated power rates at a lower rate and a decrease of $0.5 million in rental expense due to the purchase of previously leased land for our expansion projects.

Selling, General and Administrative Expenses. SG&A expenses for the year ended December 31, 2012 increased by $0.9 million, or 4.8%, to $18.9 million from $18.0 million for the year ended December 31, 2011. The increase in SG&A expenses in the 2012 period was primarily due to additional costs of operating as a publicly traded partnership for the full year in 2012, as compared to only a portion of the year ended December 31, 2011.

Depreciation Expense. Depreciation expense for the year ended December 31, 2012 increased by $0.2 million, or 1.4%, to $15.9 million from $15.7 million for the year ended December 31, 2011, primarily due to assets placed in service in late 2011 and in 2012.

Loss on Disposal of Fixed Assets. During the years ended December 31, 2012 and 2011, we recognized losses of less than $0.1 million and approximately $0.5 million, respectively, on the disposal of certain terminal assets that were dismantled.

Gain on Property Casualty Indemnification. During the year ended December 31, 2012, we did not recognize any gain or loss from property casualty indemnification. During the year ended December 31, 2011, we recognized a gain of $0.9 million, of which $0.7 million was from an insurance contract related to damages sustained during a hurricane in 2008 and $0.2 million was from proceeds received under an insurance contract resulting from property damages which occurred in 2008 at a dock at our Beaumont terminal (see Note 4 in the Notes to Consolidated Financial Statements).

Interest Expense. Interest expense for the year ended December 31, 2012 decreased by $3.8 million, or 69.6%, to $1.7 million from $5.4 million for the year ended December 31, 2011, primarily due to lower outstanding borrowings as a result of the repayment of notes payable to an affiliate with proceeds from our IPO in July 2011, and higher interest capitalized on construction projects.

Loss on Early Extinguishment of Debt. During the year ended December 31, 2012, we did not recognize any loss on early extinguishment of debt. During the year ended December 31, 2011, we recognized a $6.4 million loss on early extinguishment of debt, attributable to a reimbursement paid to Oiltanking Finance B.V. for fees incurred in connection with the repayment of $119.5 million of outstanding amounts under our notes payable, affiliate, with the proceeds of our IPO.

Income Tax (Expense) Benefit. Income tax expense for the year ended December 31, 2012 was $0.6 million, compared to an income tax benefit of $21.5 million for the year ended December 31, 2011, a net change of $22.1 million. The net change was primarily attributable to the change in the tax status of OTH in connection with our IPO

in July 2011. Prior to our IPO, in July 2011, OTH elected to be treated as a disregarded entity for U.S. federal income tax purposes (see Note 7 in the Notes to Consolidated Financial Statements). Upon the change in tax status of OTH, we recognized a non-recurring income tax benefit of $27.1 million related to the elimination of the deferred tax account balances. Due to our status as a partnership, we and our subsidiaries are not subject to U.S. federal or state income taxes, with the exception of Texas margin tax.

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Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Adjusted EBITDA. Adjusted EBITDA for the year ended December 31, 2011 decreased by $0.8 million, or 1.1%, to $67.5 million from $68.3 million for the year ended December 31, 2010. The decrease in Adjusted EBITDA was primarily attributable to increased SG&A expenses of $2.2 million, partially offset by increased revenues of $0.9 million and decreased operating expenses of $0.5 million.

Revenues. Revenues for the year ended December 31, 2011 increased by $0.9 million, or 0.8%, to $117.4 million from $116.5 million for the year ended December 31, 2010. The increase in revenues was primarily attributable to higher throughput fees of $0.8 million and an escalation in storage fees of $0.6 million, partially offset by a decrease in ancillary services fees of $0.5 million.

Operating Expenses. Operating expenses for the year ended December 31, 2011 decreased by $0.5 million, or 1.7%, to $31.9 million from $32.4 million for the year ended December 31, 2010. The decrease in operating expenses was primarily due to a decrease of $0.8 million in property taxes resulting from a refund of property taxes related to the 2010 period and a reduction of the property tax accrual for the 2011 period, a decrease of $0.4 million in repairs and maintenance costs, a decrease of $0.3 million in other operating costs and a decrease of $0.3 million in operating power and fuel costs, partially offset by an increase of $0.6 million in rental expenses associated with a new land lease, an increase of $0.4 million in insurance costs, primarily due to a premium renewal in 2011, and an increase of $0.2 million in permitting, licensing and other fees.

Selling, General and Administrative Expenses. SG&A expenses for the year ended December 31, 2011 increased by $2.2 million, or 14.0%, to $18.0 million from $15.8 million for the year ended December 31, 2010. The increase in SG&A expenses was primarily due to an increase in professional fees primarily attributable to additional costs of operating as a publicly traded partnership and an increase in expenses due to hiring additional personnel.

Depreciation Expense. Depreciation expense for the year ended December 31, 2011 increased by $0.1 million, or 0.6%, to $15.7 million from $15.6 million for the year ended December 31, 2010. The increase in depreciation expense was primarily due to assets placed in service in late 2010, partially offset by decreased depreciation expense due to the distribution of assets to OTA in connection with our IPO (see Note 1 in the Notes to Consolidated Financial Statements).

(Gain) Loss on Disposal of Fixed Assets. During the year ended December 31, 2011, we recognized a loss of $0.5 million on the disposal of certain terminal assets that were dismantled. During the year ended December 31, 2010, we recognized a gain of $0.3 million on the disposal of assets.

Gain on Property Casualty Indemnification. During the year ended December 31, 2011, we recognized a gain of $0.9 million, of which $0.7 million was from an insurance contract related to damages sustained during a hurricane in 2008 and $0.2 million was from proceeds received under an insurance contract resulting from property damages which occurred in 2008 at a dock at our Beaumont terminal (see Note 4 in the Notes to Consolidated Financial Statements). During the year ended December 31, 2010, we recognized a gain of $4.7 million from proceeds received under the insurance contract relating to damages sustained at the dock facility struck by the vessel during 2008.

Interest Expense. Interest expense for the year ended December 31, 2011 decreased by $4.1 million, or 43.0%, to $5.4 million from $9.5 million for the year ended December 31, 2010, primarily due to lower outstanding borrowings as a result of the repayment of $119.5 million of notes payable, affiliate, with proceeds from our IPO.

Loss on Early Extinguishment of Debt. During the year ended December 31, 2011, we recognized a $6.4 million loss on early extinguishment of debt, attributable to a reimbursement paid to Oiltanking Finance B.V. for fees incurred in

connection with the repayment of $119.5 million of outstanding amounts under our notes payable, affiliate, with the proceeds from our IPO. During the year ended December 31, 2010, we did not recognize any loss on early extinguishment of debt.

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Other Income (Expense). Other income (expense) for the year ended December 31, 2011 decreased by $0.7 million to $0.4 million from $1.1 million for the year ended December 31, 2010, primarily due to a lower gain recognized in 2011 related to the sale of residual product.

Income Tax (Expense) Benefit. Income tax benefit for the year ended December 31, 2011 was $21.5 million, compared to an income tax expense of $11.5 million for the year ended December 31, 2010, a net change of $33.0 million. The net change was primarily attributable to the change in tax status of OTH. In July 2011, OTH elected to be treated as a disregarded entity for U.S. federal income tax purposes (see Note 7 in the Notes to Consolidated Financial Statements). Due to the change in tax status of OTH, we recognized a non-recurring income tax benefit of $27.1 million related to the elimination of the deferred tax account balances. Due to our status as a partnership, we and our subsidiaries are not subject to U.S. federal or state income taxes, with the exception of Texas margin tax.

Liquidity and Capital Resources

Liquidity

Our principal liquidity requirements are to finance current operations, fund capital expenditures, including acquisitions from time to time, service our debt and pay distributions to our partners. Our sources of liquidity may include cash generated by our operations, borrowings under our revolving line of credit and issuances of equity and debt securities. We believe cash generated from these sources will be sufficient to meet our obligations as they come due.

During the year ended December 31, 2012, we paid cash distributions totaling $56.6 million, or $1.425 per unit, and corresponding distributions on our general partner’s interest, to unitholders. On January 22, 2013, the board of directors of our general partner declared a cash distribution to our unitholders of $0.39 per unit for the fourth quarter of 2012, and a corresponding distribution on our general partner’s interest and incentive distribution rights. The fourth quarter 2012 cash distribution totaling approximately $15.5 million was paid on February 14, 2013 to unitholders of record at the close of business on February 1, 2013. The fourth quarter 2012 cash distribution represents a 4.0% increase over the third quarter 2012 cash distribution of $0.375 per unit. We intend to continue to pay a quarterly distribution based on the number of common and subordinated units and the general partner interest outstanding to the extent we have sufficient cash from our operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner and its affiliates.

On April 16, 2012, we announced approval of an expansion project of approximately $104.0 million to construct approximately 3.2 million barrels of new crude oil storage capacity near our Houston terminal. The project included the purchase of 95 acres of nearby land on which the new capacity is being constructed.

On September 4, 2012, we announced approval of an expansion project of approximately $70.0 million to construct approximately 3.3 million barrels of new crude oil storage capacity near our Houston terminal. We anticipate commencing construction by the beginning of the second quarter of 2013 when all relevant permits are in place. The additional storage capacity is expected to be placed into service during the third and fourth quarters of 2014.

We anticipate funding these projects primarily with cash on hand and long-term borrowings from Oiltanking Finance B.V.

OILT Credit Agreement

Our Credit Agreement with Oiltanking Finance B.V., which we amended in November 2012, is a $150.0 million credit agreement, with a maturity date of November 30, 2017. From time to time upon our written request and in the sole determination of Oiltanking Finance B.V., the revolving credit commitment can be increased up to an additional $75.0 million, for a maximum revolving credit commitment of $225.0 million. Borrowings bear interest at LIBOR plus a margin ranging from 1.65% to 2.50% depending upon a leverage-based grid. Any unused portion of the

revolving line of credit is subject to a commitment fee of 0.35% per annum. As of December 31, 2012, we had $6.0 million of borrowings outstanding under the Credit Agreement at an interest rate of 2.44% per annum.

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OTH Loan Agreement

On May 16, 2012, OTH entered into the Loan Agreement for the purpose of financing the purchase of property, plant and equipment, through which borrowings were available through December 15, 2012, with a maturity date of December 15, 2022. At December 31, 2012, OTH had $125.0 million of outstanding borrowings under the Loan Agreement at a fixed interest rate of 4.55%.

Potential OTA Financial Support

OTA and other members of the Oiltanking Group, including Oiltanking Finance B.V., may elect, but are not obligated, to provide financial support to us under certain circumstances, such as in connection with an acquisition or expansion capital project. Our partnership agreement contains provisions designed to facilitate the Oiltanking Group's ability to provide us with financial support while reducing concerns regarding conflicts of interest by defining certain potential financing transactions between OTA and other members of the Oiltanking Group, including Oiltanking Finance B.V., on the one hand, and us, on the other hand, as fair to our unitholders. In that regard, the following forms of potential Oiltanking Group financial support do not require approval by the Conflicts Committee of the board of directors of our general partner and will be deemed fair to our unitholders, and will not constitute a breach of any fiduciary or other duty owed to us by our general partner, if consummated on terms no less favorable than described below:

- our issuance of common units to OTA or any of its affiliates at a price per common unit of no less than 95% of the trailing 10-day average closing price per common unit;
- our borrowing of funds from OTA or any of its affiliates on terms that include a term of at least one year and no more than ten years and a fixed rate of interest that is no more than 200 basis points higher than the corresponding base rate, which is LIBOR for one year maturities and the USD swap rate for maturities of greater than one year and up to ten years; and
- OTA and its affiliates may provide us with guaranties or trade credit support to support our ongoing operations; provided, that (i) the pricing of any such guaranties or trade credit support is no more than 100 basis points per annum and (ii) any such guaranties or trade credit support are limited to our ordinary course obligations and do not extend to indebtedness for borrowed money or other obligations that could be characterized as debt.

We have no obligation to seek financing or support from OTA or any other member of the Oiltanking Group on the terms described above or to accept such financing or support if it is offered to us. In addition, neither OTA nor any other member of the Oiltanking Group has any obligation to provide financial support under these or any other circumstances. The existence of these provisions will not preclude other forms of financial support from OTA or any other member of the Oiltanking Group, including financial support on significantly less favorable terms under circumstances in which such support appears to be in our best interests.

In addition, following the completion of our issuance of units in connection with an underwritten public offering, direct placement and/or private offering of units, we may make a reasonably prompt redemption of a number of common units owned by OTA or its affiliates that is no greater than the aggregate number of common units issued to OTA or its affiliates pursuant to the provisions summarized in the first bullet above (taking into account any prior redemption pursuant to the provisions summarized in this paragraph) at a price per common unit that is no greater than the price per common unit paid by the investors in such offering, as applicable, less underwriting discounts and commissions or placement fees, if any. As with the transactions described in the bullets above, any such redemption will be deemed fair to our unitholders and will not constitute a breach of any duty owed to us by our general partner.

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Cash Flows from Operating, Investing and Financing Activities

The following table summarizes our cash flows from operating, investing and financing activities for the periods indicated (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Cash provided by (used in):			
Operating activities	$75,254	$56,376	$60,678
Investing activities	(162,527)	(45,304)	(30,191)
Financing activities	70,508	4,018	(27,597)

Our consolidated statements of cash flows are prepared using the indirect method. The indirect method derives net cash flows from operating activities by adjusting net income to remove (i) the effects of all deferrals of past operating cash receipts and payments, such as changes during the period in deferred income and similar transactions, (ii) the effects of all accruals of expected future operating cash receipts and cash payments, such as changes during the period in receivables and payables, (iii) the effects of all items classified as investing or financing cash flows, such as gains or losses on sale of property, plant and equipment or extinguishment of debt, and (iv) other non-cash amounts such as depreciation and amortization. In general, the net effect of changes in operating accounts results from the timing of cash receipts from customers to settle accounts receivable and cash payments for operating and other expenses during each period.

Operating Activities

2012 Compared to 2011. Net cash flows provided by operating activities for the year ended December 31, 2012 increased by $18.9 million, or 33.5%, to $75.3 million from $56.4 million for the year ended December 31, 2011. The increase was primarily attributable to an increase in storage service fee revenues, throughput fee revenues and ancillary service fee revenues, partially offset by increased operating and SG&A expenses.

2011 Compared to 2010. Net cash flows provided by operating activities for the year ended December 31, 2011 decreased by $4.3 million, or 7.1%, to $56.4 million from $60.7 million for the year ended December 31, 2010. The decrease was primarily attributable to increased SG&A expenses and the receipt in the 2010 period of a one-time payment of $2.0 million, which we recorded as deferred revenue (see Note 6 in the Notes to Consolidated Financial Statements). These decreases were partially offset by an increase in throughput revenues and the annual escalation of storage fees and decreased operating expenses.

Investing Activities

2012 Compared to 2011. Net cash flows used in investing activities for the year ended December 31, 2012 increased by $117.2 million, or 258.7%, to $162.5 million from $45.3 million for the year ended December 31, 2011. The increase is primarily attributable to an increase in fixed asset purchases of $122.1 million, partially offset by an increase of $5.6 million in the collections, net of issuance, of notes receivable from Oiltanking Finance B.V.

2011 Compared to 2010. Net cash flows used in investing activities for the year ended December 31, 2011 increased by $15.1 million, or 50.1%, to $45.3 million from $30.2 million for the year ended December 31, 2010. The increase is primarily attributable to an increase in fixed asset purchases of $16.5 million, a decrease of $4.3 million in proceeds from property casualty indemnification in the 2011 period as compared to the 2010 period and a decrease of $6.3 million in the collection of notes receivable from Oiltanking Finance B.V., partially offset by a decrease of $13.0 million in the issuance of notes receivable to Oiltanking Finance B.V.

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Cash paid for capital expenditures were as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Maintenance capital expenditures	$3,682	$4,160	$3,536
Expansion expenditures	146,145	23,612	7,631
Total capital expenditures	$149,827	$27,772	$11,167

Maintenance capital expenditures are those capital expenditures required to maintain our long-term operating capacity. Expansion capital expenditures are those capital expenditures that we expect will increase our operating capacity over the long-term. During the year ended December 31, 2012, we spent $146.1 million of expansion capital primarily for the continuing construction of the new storage capacity at our Houston area terminals and associated crude oil pipeline infrastructure investments. During the year ended December 31, 2011, we spent $23.6 million of expansion capital primarily for both the completion of a barge dock at our Beaumont terminal and for the continuing construction of and partial completion of storage capacity at our Houston terminal.

In 2013, we expect to spend approximately $135.0 million to $145.0 million for capital expenditures, of which approximately $8.0 million is expected to relate to maintenance capital expenditures, including amounts carried over from 2012. A majority of the expansion project spending projected for 2013 relates to the crude oil pipelines and storage capacity projects at our Houston area terminals (see — Overview of Business and — 2012 Developments and Updates).

We anticipate the above mentioned capital expenditures will be funded primarily with cash on hand and long-term borrowings from Oiltanking Finance B.V.

We believe we have sufficient liquid assets, cash flow from operations and borrowing capacity under the Credit Agreement to meet our financial commitments, debt service obligations and anticipated capital expenditures. We are, however, subject to business and operational risks that could adversely affect our cash flow. A material decrease in our cash flows would likely have an adverse effect on our borrowing capacity.

Financing Activities

2012 Compared to 2011. Net cash flows provided by financing activities for the year ended December 31, 2012 increased by $66.5 million to $70.5 million from $4.0 million for the year ended December 31, 2011. The following were the principal factors resulting in the increase in net cash flows provided by financing activities during the year ended December 31, 2012:

- During the year ended December 31, 2012, we borrowed $125.0 million under the Loan Agreement and $6.0 million under the Credit Agreement (see Note 8 in the Notes to Consolidated Financial Statements) to finance expansion projects. In connection with our entry into the Loan Agreement and an amendment of the Credit Agreement, we paid arrangement fees totaling $1.3 million to Oiltanking Finance B.V.
- During the year ended December 31, 2012, we paid $56.6 million of cash distributions to our limited partners and general partner. During the year ended December 31, 2011, we paid $10.6 million of cash distributions to our limited partners and general partner as we were only public for a portion of the year.
- During the year ended December 31, 2012, we paid $0.2 million of pre-IPO cash distributions to OTA and its affiliates, which had been declared, but not paid, in connection with our IPO in 2011 and was included in accounts payable, affiliates, at December 31, 2011. During the year ended December 31, 2011, we paid $85.5 million of cash distributions to OTA and its affiliates, consisting of: (i) $2.0 million, which had been declared in December 2010 and paid in January 2011, and was included in accounts payable, affiliates, at December 31, 2010, and (ii) $83.5 million,

which was paid to OTA in July 2011 in connection with our IPO, $77.0 million of which was paid using proceeds from the public issuance of common units.

- During the year ended December 31, 2011, we received net proceeds of $231.2 million from the issuance of 11,500,000 common units in our IPO, after deducting the underwriting discount and the structuring fee.

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We incurred an additional $3.4 million of costs associated with our IPO, result in total net proceeds from our IPO of $227.8 million.

- During the years ended December 31, 2012 and 2011, we repaid $2.5 million and $127.5 million of notes payable to an affiliate, respectively. Of the amount repaid in 2011, $119.5 million was repaid in July 2011 with proceeds from our IPO.
- During the year ended December 31, 2011, we paid an arrangement fee of $0.3 million in connection with entering into the Credit Agreement.

2011 Compared to 2010. Net cash flows provided by financing activities for the year ended December 31, 2011 increased by $31.6 million to $4.0 million from net cash flows used in financing activities of $27.6 million for the year ended December 31, 2010. The following were the principal factors resulting in the increase in net cash flows provided by financing activities during the year ended December 31, 2011:

- During the year ended December 31, 2011, we received net proceeds of $231.2 million from the issuance of 11,500,000 common units in our IPO, after deducting the underwriting discount and the structuring fee. We incurred an additional $3.4 million of costs associated with our IPO, resulting in total net proceeds from our IPO of $227.8 million.
- During the year ended December 31, 2011, we used the proceeds from our IPO to repay $119.5 million of outstanding notes payable to an affiliate.
- During the year ended December 31, 2011, we paid pre-IPO cash distributions to OTA and its affiliates of $85.5 million, consisting of: (i) $2.0 million, which had been declared during December 2010 and paid in January 2011, and was included in accounts payable, affiliates, at December 31, 2010, and (ii) $83.5 million, which was paid to OTA in July 2011, $77.0 million of which was paid using proceeds from the public issuance of common units.
- On November 14, 2011, we paid our first quarterly cash distribution of $10.6 million, or $0.2678 per unit, to our limited partners and general partner.
- During the year ended December 31, 2011, we repaid an additional $8.0 million of notes payable, affiliate, while during the year ended December 31, 2010, we repaid $13.9 million, net of borrowings, of notes payable, affiliate.
- During the year ended December 31, 2011, we paid an arrangement fee of $0.3 million in connection with entering into the Credit Agreement.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to select appropriate accounting principles from those available, to apply those principles consistently and to make reasonable estimates and assumptions that affect revenues and associated costs as well as reported amounts of assets and liabilities, and related disclosure of contingent assets and liabilities. Certain accounting policies involve judgments and uncertainties. We evaluate estimates and assumptions on a regular basis. We base our respective estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates and assumptions used in preparation of our consolidated financial statements. We consider the following policies to be the most critical to understanding the judgments that are involved and the uncertainties that could impact our results of operations, financial condition and cash flows.

Long-Lived Assets

At December 31, 2012 and 2011, the net book value of our property, plant and equipment was $418.3 million and $271.6 million, respectively. Property, plant and equipment is generally recorded at its original acquisition cost, and its carrying value accounted for approximately 89.1% of our consolidated assets at December 31, 2012.

The cost of long-lived assets is generally depreciated on a straight-line basis over the estimated useful lives of the assets ranging from 4 to 40 years. Useful lives are based on historical experience, contract expiration or other reasonable basis, and are adjusted when changes in planned use, technological advances or other factors indicate that a different

life would be more appropriate. Changes in useful lives that do not result in the impairment of an asset are recognized prospectively. Depreciation expense was $15.9 million, $15.7 million and $15.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

In general, long-lived assets, including property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or changes include, among other factors: operating losses, unused capacity, market value declines, technological developments resulting in obsolescence, changes in demand for products in a market area, changes in competition and competitive practices and changes in governmental regulations or actions. In determining whether the carrying value of our long-lived assets is impaired, we make a number of subjective assumptions including, whether there is an indication of impairment and the extent of any such impairment.

We evaluate the potential impairment of long-lived assets by comparison of estimated undiscounted cash flows for the related asset to the asset's carrying value. Impairment is indicated when the estimated undiscounted cash flows to be generated by the asset are less than the asset's carrying value. If the long-lived asset is considered to be impaired, the impairment loss is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset, calculated using a discounted future cash flow analysis.
These future cash flow estimates (both undiscounted and discounted) are based on historical results, adjusted to reflect our best estimate of future market and operating conditions. Uncertainty associated with these cash flow estimates include assumptions regarding demand for the crude oil, refined petroleum products and liquefied petroleum gas that we transport, store and distribute, volatility and prices of crude oil and refined petroleum products, the level of domestic oil and gas production, discount rates (for discounted cash flows) and potential future sources of cash flows. Such estimates of future undiscounted net cash flows are highly subjective and are based on numerous assumptions about future operations and market conditions.

There were no impairments recorded for the years ended December 31, 2012 and 2011. During the year ended December 31, 2010, we recorded impairment on assets totaling approximately $0.05 million.

Contingencies

It is common in our industry to be subject to proceedings, lawsuits or other claims related to environmental, labor, product or other matters. Among the many uncertainties that impact our estimates of environmental and other contingent liabilities are the potential involvement in lawsuits, administrative proceedings and governmental investigations, including environmental, regulatory and other matters, as well as the uncertainties that exist in operating our storage facilities, associated pipeline systems and related facilities. Accruals for contingent liabilities are recorded when our assessment indicates that it is probable that a liability has been incurred and the amount of liability can be reasonably estimated. Such accruals may include estimates and are based on all known facts at the time and our assessment of the ultimate outcome. Our estimates for contingent liability accruals are increased or decreased as additional information is obtained or resolution is achieved.
Our insurance does not cover every potential risk associated with operating our storage facility, pipeline system and related facilities, including the potential loss of significant revenues. We believe we are adequately insured for liability and property damage to others with respect to our operations. With respect to all of our coverage, we may not be able to maintain adequate insurance in the future at rates we consider reasonable.

At December 31, 2012 and 2011, there are no material accruals for contingencies in the accompanying consolidated financial statements. At December 31, 2012 and 2011, we had not identified any environmental obligations that would require accrual in our consolidated financial statements. Although the resolution of uncertainties historically has not had a material impact on our results of operations or financial condition, we cannot provide assurance that actual amounts will not vary significantly from estimated amounts.

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Other Considerations

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2012 (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	$149,300	$2,500	$5,000	$11,000	$130,800
Interest payments (1)	65,008	7,618	14,685	13,913	28,792
Purchase commitments (2)	22,035	22,035	—	—	—
Capital expenditure obligations (3)	12,732	12,732	—	—	—
Total contractual cash obligations	$249,075	$44,885	$19,685	$24,913	$159,592

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(1) Interest payments include amounts due on our currently outstanding notes payable to an affiliate, Loan Agreement and Credit Facility, and commitment fees due on our Credit Facility. The interest amount calculated on the Credit Facility is based on the assumption that the amount outstanding and the interest rate charged both remain at their current levels.

(2) We have short-term purchase obligations for products and services with third-party suppliers. Our estimated future payment obligations are based on the contractual price under each contract for products and services at December 31, 2012.

(3) We have short-term payment obligations relating to capital projects we have initiated. These obligations represent unconditional payment obligations we have agreed to pay vendors for services rendered or products purchased and are included in accounts payable and accrued expenses on our consolidated balance sheet as of December 31, 2012.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Related Party Transactions

For more information regarding related party transactions, see Item 13. Certain Relationships and Related Transactions, and Director Independence and Notes 3, 8 and 9 in the Notes to Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. We do not take title to the crude oil, refined petroleum products and liquefied petroleum gas that we handle and store, and therefore, we have no direct exposure to risks associated with fluctuating commodity prices.

In addition, our terminal services agreements with our storage customers are generally indexed to inflation and contain fuel surcharge provisions that are designed to substantially mitigate our exposure to increases in fuel prices and the cost of other supplies used in our business.

At December 31, 2012, we had $6.0 million of outstanding borrowings under the Credit Agreement, bearing interest at variable rates. The average interest rate incurred on the indebtedness as of December 31, 2012 was 2.44% per annum. A hypothetical 1% increase in the interest rate charged by Oiltanking Finance B.V. would have resulted in an estimated $0.1 million increase in interest expense for the year ended December 31, 2012. We may use certain derivative instruments to hedge our exposure to variable interest rates in the future, but we do not currently have in place any risk management contracts.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors of OTLP GP, LLC, as General Partner of Oiltanking Partners, L.P. and
the Partners of Oiltanking Partners, L.P.
Houston, Texas

We have audited the accompanying consolidated balance sheets of Oiltanking Partners, L.P. (the "Partnership") as of December 31, 2012 and 2011 and the related consolidated statements of income, comprehensive income, cash flows and partners' capital for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these 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, 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 Oiltanking Partners, L.P. at December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Oiltanking Partners, L.P.'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") and our report dated March 6, 2013, expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Houston, Texas
March 6, 2013

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OILTANKING PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS
(In thousands, except unit amounts)

	December 31,	
	2012	2011
Assets:		
Current assets:		
Cash and cash equivalents	$7,071	$23,836
Receivables:		
Trade	12,160	5,613
Affiliates	615	3,751
Other	313	261
Note receivable, affiliate	28,000	15,300
Prepaid expenses and other	1,290	1,352
Total current assets	49,449	50,113
Property, plant and equipment, net	418,289	271,644
Other assets, net	1,482	278
Total assets	$469,220	$322,035
Liabilities and partners’ capital:		
Current liabilities:		