VALERO ENERGY CORP/TX
Form 10-Q
November 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the Quarterly Period Ended September 30, 2015
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 1-13175
VALERO ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	74-1828067
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Valero Way
San Antonio, Texas
(Address of principal executive offices)
78249
(Zip Code)
(210) 345-2000
(Registrant’s telephone number, including area code)

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 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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

The number of shares of the registrant’s only class of common stock, $0.01 par value, outstanding as of October 30, 2015 was 481,503,440.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

VALERO ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Millions of Dollars, Except Par Value)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and temporary cash investments	$5,301	$3,689
Receivables, net	4,691	5,879
Inventories	6,557	6,623
Income taxes receivable	7	97
Deferred income taxes	98	162
Prepaid expenses and other	173	164
Total current assets	16,827	16,614
Property, plant, and equipment, at cost	36,645	35,933
Accumulated depreciation	(9,957)	(9,198)
Property, plant, and equipment, net	26,688	26,735
Deferred charges and other assets, net	2,310	2,201
Total assets	$45,825	$45,550
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt and capital lease obligations	$129	$606
Accounts payable	5,679	6,760
Accrued expenses	595	596
Taxes other than income taxes	1,113	1,209
Income taxes payable	386	433
Deferred income taxes	387	376
Total current liabilities	8,289	9,980
Debt and capital lease obligations, less current portion	7,252	5,780
Deferred income taxes	6,656	6,607
Other long-term liabilities	1,760	1,939
Commitments and contingencies		
Equity:		
Valero Energy Corporation stockholders’ equity:		
Common stock, $0.01 par value; 1,200,000,000 shares authorized; 673,501,593 and 673,501,593 shares issued	7	7
Additional paid-in capital	7,074	7,116
Treasury stock, at cost; 190,478,467 and 159,202,872 common shares	(10,095)	(8,125)
Retained earnings	25,130	22,046
Accumulated other comprehensive loss	(795)	(367)
Total Valero Energy Corporation stockholders’ equity	21,321	20,677
Noncontrolling interests	547	567
Total equity	21,868	21,244
Total liabilities and equity	$45,825	$45,550

See Condensed Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Millions of Dollars, Except Per Share Amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating revenues	$22,579	$34,408	$69,027	$102,985
Costs and expenses:				
Cost of sales	18,677	31,023	58,234	93,820
Operating expenses:				
Refining	986	987	2,885	2,926
Ethanol	116	118	344	358
General and administrative expenses	179	180	504	510
Depreciation and amortization expense	482	430	1,348	1,265
Total costs and expenses	20,440	32,738	63,315	98,879
Operating income	2,139	1,670	5,712	4,106
Other income, net	3	11	35	38
Interest and debt expense, net of capitalized interest	(112)	(98)	(326)	(296)
Income from continuing operations before income tax expense	2,030	1,583	5,421	3,848
Income tax expense	657	521	1,715	1,293
Income from continuing operations	1,373	1,062	3,706	2,555
Loss from discontinued operations	—	—	—	(64)
Net income	1,373	1,062	3,706	2,491
Less: Net income (loss) attributable to noncontrolling interests	(4)	3	14	16
Net income attributable to Valero Energy Corporation stockholders	$1,377	$1,059	$3,692	$2,475
Net income attributable to Valero Energy Corporation stockholders:				
Continuing operations	$1,377	$1,059	$3,692	$2,539
Discontinued operations	—	—	—	(64)
Total	$1,377	$1,059	$3,692	$2,475
Earnings per common share:				
Continuing operations	$2.79	$2.01	$7.31	$4.78
Discontinued operations	—	—	—	(0.12)
Total	$2.79	$2.01	$7.31	$4.66
Weighted-average common shares outstanding (in millions)	491	526	503	529
Earnings per common share – assuming dilution:				
Continuing operations	$2.79	$2.00	$7.30	$4.76
Discontinued operations	—	—	—	(0.12)
Total	$2.79	$2.00	$7.30	$4.64
Weighted-average common shares outstanding – assuming dilution (in millions)	494	530	506	533
Dividends per common share	$0.400	$0.275	$1.200	$0.775

See Condensed Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Millions of Dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$1,373	$1,062	$3,706	$2,491
Other comprehensive loss:				
Foreign currency translation adjustment	(270)	(274)	(439)	(198)
Net gain (loss) on pension and other postretirement benefits	6	(3)	17	(5)
Net gain on derivative instruments designated and qualifying as cash flow hedges	—	—	—	1
Other comprehensive loss before income tax expense (benefit)	(264)	(277)	(422)	(202)
Income tax expense (benefit) related to items of other comprehensive income (loss)	2	—	6	(1)
Other comprehensive loss	(266)	(277)	(428)	(201)
Comprehensive income	1,107	785	3,278	2,290
Less: Comprehensive income (loss) attributable to noncontrolling interests	(4)	3	14	16
Comprehensive income attributable to Valero Energy Corporation stockholders	$1,111	$782	$3,264	$2,274

See Condensed Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of Dollars)
(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$3,706	$2,491
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	1,348	1,265
Aruba Refinery asset retirement expense and other	—	63
Deferred income tax expense	77	191
Changes in current assets and current liabilities	46	(808)
Changes in deferred charges and credits and other operating activities, net	(53)	42
Net cash provided by operating activities	5,124	3,244
Cash flows from investing activities:		
Capital expenditures	(1,186)	(1,453)
Deferred turnaround and catalyst costs	(509)	(492)
Other investing activities, net	16	(41)
Net cash used in investing activities	(1,679)	(1,986)
Cash flows from financing activities:		
Proceeds from debt issuances	1,446	—
Repayment of debt	(502)	(200)
Proceeds from the exercise of stock options	29	37
Purchase of common stock for treasury	(2,071)	(799)
Common stock dividends	(608)	(411)
Contributions from noncontrolling interests	4	14
Distributions to noncontrolling interests (public unitholders) of Valero Energy Partners LP	(14)	(8)
Distributions to other noncontrolling interest	(25)	—
Other financing activities, net	14	51
Net cash used in financing activities	(1,727)	(1,316)
Effect of foreign exchange rate changes on cash	(106)	(43)
Net increase (decrease) in cash and temporary cash investments	1,612	(101)
Cash and temporary cash investments at beginning of period	3,689	4,292
Cash and temporary cash investments at end of period	$5,301	$4,191

See Condensed Notes to Consolidated Financial Statements.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

As used in this report, the terms “Valero,” “we,” “us,” or “our” may refer to Valero Energy Corporation, one or more of its consolidated subsidiaries, or all of them taken as a whole.

These unaudited financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature unless disclosed otherwise. Financial information for the three and nine months ended September 30, 2015 and 2014 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited financial statements. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The balance sheet as of December 31, 2014 has been derived from our audited financial statements as of that date. For further information, refer to our financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2014.

In May 2014, we abandoned our Aruba Refinery, except for the associated crude oil and refined products terminal assets that we continue to operate. As a result, the refinery’s results of operations have been presented as discontinued operations for the nine months ended September 30, 2014. For the nine months ended September 30, 2014, the Aruba Refinery had no operating revenues and a $64 million loss before income tax expense, primarily related to asset retirement obligations. There was no tax benefit recognized for the loss from discontinued operations for the nine months ended September 30, 2014 as we do not expect to realize this tax benefit.

Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. On an ongoing basis, we review our estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

Discontinued Operations

In April 2014, the provisions of Accounting Standards Codification (ASC) Topic 205, “Presentation of Financial Statements,” and ASC Topic 360, “Property, Plant, and Equipment,” were amended to change the criteria for reporting discontinued operations. The provisions of these amendments modify the definition of discontinued operations by limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have or will have a major effect on an entity’s operations and financial results. These amendments require additional disclosures about discontinued operations and new disclosures for other disposals of individually material components of an organization that do not meet the definition of a discontinued operation. In addition, the guidance allows companies to have significant continuing involvement and continuing cash flows with the discontinued operation. These provisions were effective

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prospectively for annual reporting periods beginning on or after December 15, 2014, and interim periods within those annual periods, with early adoption permitted. The adoption of this guidance effective January 1, 2015 did not affect our financial position or results of operations; however, it may result in changes to the manner in which future dispositions of operations or assets, if any, are presented in our financial statements, or it may require additional disclosures.

New Accounting Pronouncements

In May 2014, the ASC was amended and a new accounting standard, ASC Topic 606, “Revenue from Contracts with Customers,” was issued to clarify the principles for recognizing revenue. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires improved interim and annual disclosures that enable the users of financial statements to better understand the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. In July 2015, the effective date of the new standard was deferred by one year. As a result, the standard is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those reporting periods, and can be adopted either retrospectively to each prior reporting period presented using a practical expedient, as allowed by the standard, or retrospectively with a cumulative-effect adjustment to retained earnings as of the date of initial application. Early adoption is permitted, but not before the original effective date, which was for annual reporting periods beginning after December 15, 2016, including interim reporting periods within those reporting periods. We are currently evaluating the effect that adopting this standard will have on our financial statements and related disclosures.

In February 2015, the provisions of ASC Topic 810, “Consolidation,” were amended to improve consolidation guidance for certain types of legal entities. The guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and provides a scope exception from consolidation guidance for certain money market funds. These provisions are effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual periods, with early adoption permitted. These provisions may also be adopted retrospectively in previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated. The adoption of this guidance effective January 1, 2016 will not affect our financial position or results of operations, but will result in additional disclosures.

In April 2015, the provisions of ASC Subtopic 835-30, “Interest–Imputation of Interest,” were amended to simplify the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a note be reported in the balance sheet as a direct deduction from the face amount of that note, consistent with debt discounts, and that amortization of debt issuance costs be reported as interest expense. In August 2015, these provisions were further amended with guidance from the Securities and Exchange Commission staff that they would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. These provisions are to be applied retrospectively and are effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual periods, with early

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adoption permitted. The adoption of this guidance effective January 1, 2016 will not materially affect our financial position or results of operations; however, our debt issuance costs associated with issued debt (other than borrowings on our line-of-credit arrangements) will be reported in the balance sheet as a direct deduction from “debt and capital lease obligations, less current portion” and excluded from “deferred charges and other assets, net.” Debt issuance costs associated with borrowings on our line-of-credit arrangements will continue to be reported in the balance sheet as “deferred charges and other assets, net,” and the related amortization will continue to be reported as interest expense.

Also in April 2015, the provisions of ASC Topic 715, “Compensation–Retirement Benefits,” were amended to provide a practical expedient for the measurement date of an entity’s defined benefit pension or other postretirement plans. For an entity with a fiscal year-end that does not coincide with a month-end, the guidance provides a practical expedient that allows the entity to measure the defined benefit plan assets and obligations using the month-end that is closest to the entity’s fiscal year-end. For an entity that has a significant event in an interim period that calls for a remeasurement, the guidance allows an entity to remeasure the defined benefit plan assets and obligations using the month-end that is closest to the date of the significant event. These provisions are effective retrospectively for annual reporting periods beginning after December 15, 2015, and interim periods within those annual periods, with early adoption permitted. The adoption of this guidance effective January 1, 2016 will not affect our financial position or results of operations.

In May 2015, the provisions of ASC Topic 820, “Fair Value Measurements,” were amended to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured using the net asset value per share practical expedient and limits those disclosures to investments for which the entity has elected to measure the fair value using that practical expedient. These provisions are to be applied retrospectively and are effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual periods, with early adoption permitted. The adoption of this guidance effective January 1, 2016 will not affect our financial position or results of operations, but will result in revised disclosures.

In July 2015, the provisions of ASC Topic 330, “Inventory,” were amended to simplify the measurement of inventory. The guidance does not apply to inventory where the cost of such inventory is measured using the last-in, first-out (LIFO) or the retail inventory methods. The guidance applies to inventory where the cost of such inventory is measured using the first-in, first-out (FIFO) or average cost methods, and it requires the inventory to be measured at the lower of cost and net realizable value rather than the lower of cost or market. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predicable costs of completion, disposal, and transportation. These provisions are to be applied prospectively and are effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. The adoption of this guidance effective January 1, 2017 will not affect our financial position or results of operations.

In September 2015, the provisions of ASC Topic 805, “Business Combinations,” were amended to simplify the accounting and reporting of adjustments made to provisional amounts recognized in a business combination. The amendment requires that an acquirer (i) record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

date and (ii) present separately on the statement of income or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. These provisions are effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual periods, and should be applied prospectively to adjustments made to provisional amounts that occur after the effective date. Earlier application is permitted for financial statements that have not yet been issued. The adoption of this guidance effective January 1, 2016 will not affect our financial position or results of operations; however, it may result in changes to the manner in which adjustments to provisional amounts recognized in a future business combination, if any, are presented in our financial statements.

2. VALERO ENERGY PARTNERS LP

Valero Energy Partners LP (VLP) is a publicly traded master limited partnership that we formed to own, operate, develop, and acquire crude oil and refined petroleum products pipelines, terminals, and other transportation and logistics assets. As of September 30, 2015, VLP's assets included crude oil and refined products pipeline and terminal systems in the U.S. Gulf Coast and U.S. Mid-Continent regions that are integral to the operations of seven of our refineries.

Effective March 1, 2015, we contributed to VLP our Houston and St. Charles Terminal Services Business, which owns and operates crude oil, intermediates, and refined products terminals supporting our Houston and St. Charles Refineries. We received (i) cash consideration of $571 million and (ii) 1,908,100 common units representing limited partner interests in VLP and 38,941 general partner units representing general partner interests in VLP having an aggregate value of $100 million. A portion of the cash consideration was funded through a $200 million borrowing by VLP under its revolving credit facility. The remaining cash consideration was funded with $211 million of VLP's cash on hand and a $160 million borrowing under a subordinated credit agreement between VLP and us, which is eliminated in consolidation as further described below.

The ownership of VLP consisted of the following:

	September 30, 2015		December 31, 2014	
Valero:				
Limited partner interest	69.6	%	68.6	%
General partner interest	2.0	%	2.0	%
Public:				
Limited partner interest	28.4	%	29.4	%

We consolidate the financial statements of VLP into our financial statements and as such, VLP's cash and temporary cash investments are included in our consolidated cash and temporary cash investments. However, VLP's cash and temporary cash investments can only be used to settle its own obligations. VLP's cash and temporary cash investments were $51 million and $237 million as of September 30, 2015 and December 31, 2014, respectively. In addition, VLP's partnership capital attributable to the public's ownership interest in VLP of $385 million and $375 million as of September 30, 2015 and December 31, 2014, respectively, is reflected in noncontrolling interests.

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We have agreements with VLP that establish fees for certain general and administrative services, and operational and maintenance services provided by us. In addition, we have a master transportation services agreement and a master terminal services agreement with VLP under which VLP provides commercial pipeline transportation and terminaling services to us. These transactions are eliminated in consolidation.

Effective October 1, 2015, we contributed to VLP our Corpus Christi Terminal Services Business, which owns and operates crude oil, intermediates, and refined products terminals supporting our Corpus Christi East and West Refineries. We received (i) cash consideration of $395 million and (ii) 1,570,513 common units representing limited partner interests in VLP and 32,051 general partner units representing general partner interests in VLP having an aggregate value of $70 million. The cash consideration was funded with a $395 million borrowing under a subordinated credit agreement between VLP and us. Because we consolidate the financial statements of VLP into our financial statements, this transaction will be eliminated in consolidation and will not impact our consolidated financial position or cash flows.

3. INVENTORIES

Inventories consisted of the following (in millions):

	September 30, 2015	December 31, 2014
Refinery feedstocks	$2,728	$2,269
Refined products and blendstocks	3,396	3,926
Ethanol feedstocks and products	190	195
Materials and supplies	243	233
Inventories	$6,557	$6,623

As of September 30, 2015 and December 31, 2014, the replacement cost (market value) of LIFO inventories exceeded their LIFO carrying amounts by $1.0 billion and $857 million, respectively. As of September 30, 2015 and December 31, 2014, our non-LIFO inventories accounted for $634 million and $906 million, respectively, of our total inventories.

4. DEBT

Credit Facilities

Revolver

We have a $3 billion revolving credit facility (the Revolver) that matures in November 2018. We have the option to increase the aggregate commitments under the Revolver to $4.5 billion, subject to, among other things, the consent of the existing lenders whose commitments will be increased or any additional lenders providing such additional capacity. The Revolver has certain restrictive covenants, including a maximum debt-to-capitalization ratio of 60 percent. As of September 30, 2015 and December 31, 2014, we were in compliance with the Revolver’s restrictive covenants. As of September 30, 2015 and December 31, 2014, there were no borrowings outstanding under the Revolver.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VLP Revolver
VLP has a $300 million senior unsecured revolving credit facility agreement (the VLP Revolver) that matures in December 2018. The VLP Revolver bears interest at a variable rate, which was 1.5 percent as of September 30, 2015. The VLP Revolver is available only to the operations of VLP, and creditors of VLP do not have recourse against Valero. During the nine months ended September 30, 2015, VLP borrowed $200 million under the VLP Revolver in connection with VLP's acquisition of the Houston and St. Charles Terminal Services Business, as further discussed in Note 2, and repaid $25 million on the VLP Revolver. As of September 30, 2015, VLP had $175 million of borrowings outstanding under the VLP Revolver. No borrowings were outstanding on the VLP Revolver as of December 31, 2014.

Canadian Revolver
One of our Canadian subsidiaries has a C$50 million committed revolving credit facility (the Canadian Revolver) that matures in November 2015. As of September 30, 2015 and December 31, 2014, there were no borrowings outstanding under the Canadian Revolver.

Letters of Credit
Letters of credit issued under our committed credit facilities were as follows (in millions):

	Borrowing Capacity	Expiration	Amounts Issued September 30, 2015	December 31, 2014
Letter of credit facility	$ 125	June 2016	$ 20	$ 56
Revolver	$ 3,000	November 2018	$ 54	$ 54
VLP Revolver	$ 300	December 2018	$ —	$ —
Canadian Revolver	C$50	November 2015	C$10	C$10

In June 2015, one of our committed letter of credit facilities with a borrowing capacity of $300 million expired and was not renewed. The remaining committed letter of credit facility was amended in July 2015 to extend the maturity date to June 2016 and reduce the borrowing capacity from $250 million to $125 million.

As of September 30, 2015 and December 31, 2014, there were $93 million and $80 million, respectively, of letters of credit issued under our uncommitted short-term bank credit facilities.

Non-Bank Debt
During the nine months ended September 30, 2015, we issued $600 million of 3.65 percent senior notes due March 15, 2025 and $650 million of 4.9 percent senior notes due March 15, 2045. Proceeds from these debt issuances totaled $1.246 billion. We also incurred $12 million of debt issuance costs.

In addition, during the nine months ended September 30, 2015, we made scheduled debt repayments of $400 million related to our 4.5 percent senior notes and $75 million related to our 8.75 percent debentures. During the nine months ended September 30, 2014, we made a scheduled debt repayment of $200 million related to our 4.75 percent senior notes.

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounts Receivable Sales Facility
We have an accounts receivable sales facility with a group of third-party entities and financial institutions to sell eligible trade receivables on a revolving basis. In July 2015, we amended our agreement to decrease the facility from $1.5 billion to $1.4 billion and extended the maturity date to July 2016. Proceeds from the sale of receivables under this facility are reflected as debt. Under this program, one of our marketing subsidiaries (Valero Marketing) sells eligible receivables, without recourse, to another of our subsidiaries (Valero Capital), whereupon the receivables are no longer owned by Valero Marketing. Valero Capital, in turn, sells an undivided percentage ownership interest in the eligible receivables, without recourse, to the third-party entities and financial institutions. To the extent that Valero Capital retains an ownership interest in the receivables it has purchased from Valero Marketing, such interest is included in our financial statements solely as a result of the consolidation of the financial statements of Valero Capital with those of Valero Energy Corporation; the receivables are not available to satisfy the claims of the creditors of Valero Marketing or Valero Energy Corporation.

As of September 30, 2015 and December 31, 2014, we had $100 million outstanding under our accounts receivable sales facility.

Capitalized Interest
Capitalized interest was $18 million and $17 million for the three months ended September 30, 2015 and 2014, respectively, and $50 million and $52 million for the nine months ended September 30, 2015 and 2014, respectively.

5. COMMITMENTS AND CONTINGENCIES

Environmental Matters
We are involved, together with several other companies, in an environmental cleanup in the Village of Hartford, Illinois (the Village) and recently, one of these companies assumed the ongoing remediation in the Village pursuant to a federal court order. Along with other companies, we previously conducted initial mitigation and cleanup in the Village pursuant to an administrative order issued by the U.S. Environmental Protection Agency (EPA). The parties involved in the initial Village cleanup may have further claims between themselves for costs already incurred. We also continue to be engaged in site assessment and interim measures at the adjacent shutdown refinery site, which we acquired as part of an acquisition in 2005, and we are in litigation with the Illinois EPA and other potentially responsible parties relating to the remediation of the site. In each of these matters, we have various defenses and rights for contribution from the other responsible parties. We have recorded a liability for our own expected contribution obligations. However, because of the unpredictable nature of these cleanups, the methodology for allocation of liabilities and the state of Illinois' failure to directly sue third parties responsible for historic contamination at the site, it is reasonably possible that we could incur a loss in a range of $0 to $200 million in excess of the amount of our accrual to ultimately resolve these matters. Factors underlying this estimated range are expected to change from time to time, and actual results may vary significantly from this estimate.

Litigation Matters
We are party to claims and legal proceedings arising in the ordinary course of business. We have not recorded a loss contingency liability with respect to some of these matters because we have determined that it is remote that a loss has been incurred. For other matters, we have recorded a loss contingency liability where we have

VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

determined that it is probable that a loss has been incurred and that the loss is reasonably estimable. These loss contingency liabilities are not material to our financial position. We re-evaluate and update our loss contingency liabilities as matters progress over time, and we believe that any changes to the recorded liabilities will not be material to our financial position, results of operations, or liquidity.

6. EQUITY

Reconciliation of Balances

The following is a reconciliation of the beginning and ending balances of equity attributable to our stockholders, equity attributable to noncontrolling interests, and total equity (in millions):

	Nine Months Ended September 30,					
	2015			2014		
	Valero Stockholders' Equity	Non-controlling Interests	Total Equity	Valero Stockholders' Equity	Non-controlling Interests	Total Equity
Balance as of beginning of period	$20,677	$567	$21,244	$19,460	$486	$19,946
Net income	3,692	14	3,706	2,475	16	2,491
Dividends	(608)	—	(608)	(411)	—	(411)
Stock-based compensation expense	27	—	27	30	—	30
Tax deduction in excess of stock-based compensation expense	33	—	33	33	—	33
Transactions in connection with stock-based compensation plans:						
Stock issuances	29	—	29	37	—	37
Stock purchases	(136)	—	(136)	(177)	—	(177)
Stock purchases under repurchase program	(1,965)	—	(1,965)	(692)	—	(692)
Contributions from noncontrolling interests	—	5	5	—	14	14
Distributions to noncontrolling interests	—	(39)	(39)	—	(8)	(8)
Other comprehensive loss	(428)	—	(428)	(201)	—	(201)
Balance as of end of period	$21,321	$547	$21,868	$20,554	$508	$21,062

The noncontrolling interests relate to third-party ownership interests in VLP and joint venture companies whose financial statements we consolidate due to our controlling interests.

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Share Activity
Activity in the number of shares of common stock and treasury stock was as follows (in millions):

	Nine Months Ended September 30,			
	2015		2014	
	Common Stock	Treasury Stock	Common Stock	Treasury Stock
Balance as of beginning of period	673	(159)	673	(138)
Transactions in connection with stock-based compensation plans:				
Stock issuances	—	3	—	3
Stock purchases	—	(2)	—	(2)
Stock purchases under repurchase program	—	(32)	—	(13)
Balance as of end of period	673	(190)	673	(150)

Treasury Stock
On July 13, 2015, our board of directors authorized our repurchase of an additional $2.5 billion of our outstanding common stock with no expiration date.

Common Stock Dividends
On October 28, 2015, our board of directors declared a quarterly cash dividend of $0.50 per common share payable on December 17, 2015 to holders of record at the close of business on November 23, 2015.

Income Tax Effects Related to Components of Other Comprehensive Income (Loss)
The tax effects allocated to each component of other comprehensive income (loss) were as follows (in millions):

	Three Months Ended September 30,					
	2015			2014		
	Before-Tax Amount	Tax Expense (Benefit)	Net Amount	Before-Tax Amount	Tax Expense (Benefit)	Net Amount
Foreign currency translation adjustment	$(270)	$—	$(270)	$(274)	$—	$(274)
Pension and other postretirement benefits:						
Amounts reclassified into income related to:						
Net actuarial loss	16	5	11	8	3	5
Prior service credit	(10)	(3)	(7)	(11)	(3)	(8)
Net gain (loss) on pension and other postretirement benefits	6	2	4	(3)	—	(3)
Derivative instruments designated and qualifying as cash flow hedges:						
Net loss arising during the period	—	—	—	(5)	(2)	(3)
Net loss reclassified into income	—	—	—	5	2	3
Net loss on cash flow hedges	—	—	—	—	—	—
Other comprehensive loss	$(264)	$2	$(266)	$(277)	$—	$(277)

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VALERO ENERGY CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Nine Months Ended September 30, 2015			2014		
	Before-Tax Amount	Tax Expense (Benefit)	Net Amount	Before-Tax Amount	Tax Expense (Benefit)	Net Amount
Foreign currency translation adjustment	$(439)	$—	$(439)	$(198)	$—	$(198)
Pension and other postretirement benefits:						
Amounts reclassified into income related to:						
Net actuarial loss	47	16	31	25	9	16
Prior service credit	(30)	(10)	(20)	(30)	(11)	(19)
Net gain (loss) on pension and other postretirement benefits	17	6	11	(5)	(2)	(3)
Derivative instruments designated and qualifying as cash flow hedges:						
Net loss arising during the period	—	—	—	(1)	—	(1)
Net loss reclassified into income	—	—	—	2	1	1
Net gain on cash flow hedges	—	—	—	1	1	—
Other comprehensive loss	$(422)	$6	$(428)	$(202)	$(1)	$(201)

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component, net of tax, were as follows (in millions):

	Foreign Currency Translation Adjustment	Defined Benefit Plans Items	Gains and (Losses) on Cash Flow Hedges	Total
Balance as of December 31, 2014	$1	$(368)	$—	$(367)
Other comprehensive loss before reclassifications	(439)	—	—	(439)
Amounts reclassified from accumulated other comprehensive loss	—	11	—	11
Net other comprehensive income (loss)	(439)	11	—	(428)
Balance as of September 30, 2015	$(438)	$(357)	$—	$(795)
Balance as of December 31, 2013	$408	$(58)	$—	$350
Other comprehensive loss before reclassifications	(198)	—	(1)	(199)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(3)	1	(2)
Net other comprehensive loss	(198)	(3)	—	(201)
Balance as of September 30, 2014	$210	$(61)	$—	$149

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost related to our defined benefit plans were as follows (in millions):

	Pension Plans		Other Postretirement Benefit Plans	
	2015	2014	2015	2014
Three months ended September 30:				
Service cost	$27	$30	$2	$3
Interest cost	24	23	4	4
Expected return on plan assets	(33)	(34)	—	—
Amortization of:				
Prior service credit	(5)	(6)	(5)	(5)
Net actuarial (gain) loss	16	9	—	(1)
Net periodic benefit cost	$29	$22	$1	$1
Nine months ended September 30:				
Service cost	$82	$90	$6	$6
Interest cost	73	69	11	12
Expected return on plan assets	(100)	(100)	—	—
Amortization of:				
Prior service credit	(16)	(16)	(14)	(14)
Net actuarial (gain) loss	47	26	—	(1)
Net periodic benefit cost	$86	$69	$3	$3

We contributed $114 million and $31 million, respectively, to our pension plans and $11 million and $14 million, respectively, to our other postretirement benefit plans during the nine months ended September 30, 2015 and 2014. Of the $114 million contributed to our pension plans during the nine months ended September 30, 2015, $77 million was discretionary and was contributed during the third quarter of 2015.

As a result of the additional discretionary pension contributions discussed above, our expected contributions to our pension plans have increased to $124 million for 2015. Our anticipated contributions to our other postretirement benefit plans during 2015 have not changed from the amount previously disclosed in our financial statements for the year ended December 31, 2014.

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8. EARNINGS PER COMMON SHARE

Earnings per common share were computed as follows (dollars and shares in millions, except per share amounts):

	Three Months Ended September 30,			
	2015		2014	
	Participating Securities	Common Stock	Participating Securities	Common Stock
Earnings per common share from continuing operations:				
Net income attributable to Valero stockholders from continuing operations		$1,377		$1,059
Less dividends paid:				
Common stock		198		145
Participating securities		1		—
Undistributed earnings		$1,178		$914
Weighted-average common shares outstanding	2	491	2	526
Earnings per common share from continuing operations:				
Distributed earnings	$0.40	$0.40	$0.28	$0.28
Undistributed earnings	2.39	2.39	1.73	1.73
Total earnings per common share from continuing operations	$2.79	$2.79	$2.01	$2.01
Earnings per common share from continuing operations – assuming dilution:				
Net income attributable to Valero stockholders from continuing operations		$1,377		$1,059
Weighted-average common shares outstanding		491		526
Common equivalent shares:				
Stock options		1		2
Performance awards and nonvested restricted stock		2		2
Weighted-average common shares outstanding – assuming dilution		494		530
Earnings per common share from continuing operations – assuming dilution		$2.79		$2.00

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	Nine Months Ended September 30,			
	2015		2014	
	Participating Securities	Common Stock	Participating Securities	Common Stock
Earnings per common share from continuing operations:				
Net income attributable to Valero stockholders from continuing operations		$3,692		$2,539
Less dividends paid:				
Common stock		606		410
Participating securities		2		1
Undistributed earnings		$3,084		$2,128
Weighted-average common shares outstanding	2	503	2	529
Earnings per common share from continuing operations:				
Distributed earnings	$1.20	$1.20	$0.77	$0.77
Undistributed earnings	6.11	6.11	4.01	4.01
Total earnings per common share from continuing operations	$7.31	$7.31	$4.78	$4.78
Earnings per common share from continuing operations – assuming dilution:				
Net income attributable to Valero stockholders from continuing operations		$3,692		$2,539
Weighted-average common shares outstanding		503		529
Common equivalent shares:				
Stock options				