

SUNOCO INC  
Form 10-Q  
August 02, 2012  
Table of Contents

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from            to

Commission file number 1-6841

**SUNOCO, INC.**

(Exact name of registrant as specified in its charter)

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<b>Pennsylvania</b> (State or other jurisdiction of incorporation or organization)	<b>23-1743282</b> (I.R.S. Employer Identification No.)
<b>1818 Market Street, Suite 1500, Philadelphia, PA</b> (Address of principal executive offices)	<b>19103</b> (Zip Code)
<b>Registrant's telephone number, including area code: (215) 977-3000</b>	

(Former name, former address and former fiscal year, if changed since last report): Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

At June 30, 2012, there were 104,733,328 shares of Common Stock, \$1 par value outstanding.

**Table of Contents**

SUNOCO, INC.

INDEX

	Page Number
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1.	<u>Financial Statements (Unaudited)</u>
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2012 and 2011</u> 1
	<u>Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011</u> 2
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011</u> 3
	<u>Notes to Condensed Consolidated Financial Statements</u> 4
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 22
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 33
Item 4.	<u>Controls and Procedures</u> 33
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1.	<u>Legal Proceedings</u> 34
Item 1A.	<u>Risk Factors</u> 34
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 36
Item 6.	<u>Exhibits</u> 37
	<u>SIGNATURE</u> 38

**Table of Contents**

## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements (Unaudited)****SUNOCO, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Millions of Dollars and Shares, Except Per-Share Amounts)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	2011*	June 30, 2012	2011*
<b>(UNAUDITED)</b>				
<b>Revenues</b>				
Sales and other operating revenue (including consumer excise taxes)	\$ 12,219	\$ 11,294	\$ 24,417	\$ 21,272
Interest income	2	8	5	12
Gain (loss) on divestment of Toledo refinery (Note 3)		(9)	104	6
Other income, net	8	25	24	34
	12,229	11,318	24,550	21,324
<b>Costs and Expenses</b>				
Cost of products sold and operating expenses	10,852	10,381	21,748	19,609
Consumer excise taxes	617	553	1,196	1,100
Selling, general and administrative expenses	154	143	282	267
Depreciation, depletion and amortization	51	91	112	183
Payroll, property and other taxes	23	17	55	47
Provision for asset write-downs and other matters (Note 3)	(1)	7	108	13
Interest cost and debt expense	41	39	90	82
Interest capitalized	(2)	(1)	(4)	(3)
	11,735	11,230	23,587	21,298
Income from continuing operations before income tax expense	494	88	963	26
Income tax expense (Note 4)	163	20	333	29
Income (loss) from continuing operations	331	68	630	(3)
Income (loss) from discontinued operations, net of income taxes (Note 2)	4	(139)	6	(148)
Net income (loss)	335	(71)	636	(151)
Less: Income from continuing operations attributable to noncontrolling interests	87	51	139	80
Income (loss) from discontinued operations attributable to noncontrolling interests		3	1	(5)
Net income (loss) attributable to Sunoco, Inc. shareholders	\$ 248	\$ (125)	\$ 496	\$ (226)
<b>Earnings (loss) attributable to Sunoco, Inc. shareholders per share of common stock:</b>				
<b>Basic:</b>				
Income (loss) from continuing operations	\$ 2.32	\$ 0.14	\$ 4.64	\$ (0.69)
Income (loss) from discontinued operations	0.04	(1.17)	0.05	(1.18)

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Net income (loss)	\$ 2.36	\$ (1.03)	\$ 4.69	\$ (1.87)
Diluted:				
Income (loss) from continuing operations	\$ 2.31	\$ 0.14	\$ 4.62	\$ (0.69)
Income (loss) from discontinued operations	0.04	(1.17)	0.05	(1.18)
Net income (loss)	\$ 2.35	\$ (1.03)	\$ 4.67	\$ (1.87)
Weighted-average number of shares outstanding (Note 5):				
Basic	105.0	121.1	105.8	121.0
Diluted	105.4	121.1	106.3	121.0
Cash dividends paid per share of common stock	\$ 0.20	\$ 0.15	\$ 0.40	\$ 0.30
<b>Comprehensive income (loss):</b>				
Comprehensive income (loss)	\$ 344	\$ (55)	\$ 687	\$ (128)
Less: Comprehensive income attributable to noncontrolling interests	87	54	138	75
Comprehensive income (loss) attributable to Sunoco, Inc. shareholders	\$ 257	\$ (109)	\$ 549	\$ (203)

\* Reclassified to conform to 2012 presentation (Note 2).

(See Accompanying Notes)

**Table of Contents**

**SUNOCO, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Millions of Dollars)

	At June 30, 2012 (UNAUDITED)	At December 31, 2011
<b>Assets</b>		
Cash and cash equivalents	\$ 1,884	\$ 2,064
Accounts and notes receivable, net	2,556	3,071
Inventories (Note 6)	462	587
Deferred income taxes	198	286
<b>Total current assets</b>	<b>5,100</b>	<b>6,008</b>
Note receivable from sale of Toledo refinery (Note 3)		182
Investments and long-term receivables	121	158
Properties, plants and equipment, cost	5,226	7,010
Less: Accumulated depreciation, depletion and amortization	1,679	2,045
Properties, plants and equipment, net	3,547	4,965
Deferred income taxes	31	68
Deferred charges and other assets	538	601
<b>Total assets</b>	<b>\$ 9,337</b>	<b>\$ 11,982</b>
<b>Liabilities and Equity</b>		
Accounts payable	\$ 3,210	\$ 4,098
Accrued liabilities (Note 7)	503	741
Short-term borrowings		103
Current portion of long-term debt		282
Taxes payable	278	146
<b>Total current liabilities</b>	<b>3,991</b>	<b>5,370</b>
Long-term debt	2,548	3,159
Retirement benefit liabilities (Note 8)	247	542
Deferred income taxes	283	544
Other deferred credits and liabilities (Note 7)	522	567
Commitments and contingent liabilities (Note 7)		
<b>Total liabilities</b>	<b>7,591</b>	<b>10,182</b>
<b>Equity (Note 10)</b>		
Sunoco, Inc. shareholders' equity	916	893
Noncontrolling interests	830	907
<b>Total equity</b>	<b>1,746</b>	<b>1,800</b>

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Total liabilities and equity	\$	9,337	\$	11,982
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(See Accompanying Notes)

**Table of Contents****SUNOCO, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Millions of Dollars)

	For the Six Months Ended June 30,	
	2012	2011
	(UNAUDITED)	
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ 636	\$ (151)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on divestment of Toledo refinery	(104)	(6)
Provision for asset write-downs and other matters	100	300
Depreciation, depletion and amortization	115	224
Deferred income tax expense (benefit)	154	(191)
Payments less than (in excess of) expense for retirement plans	(194)	5
Changes in working capital pertaining to operating activities:		
Accounts and notes receivable	622	(366)
Inventories	(96)	(591)
Accounts payable and accrued liabilities	(942)	362
Income taxes payable	145	71
Other	(49)	(14)
Net cash provided by (used in) operating activities	387	(357)
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(222)	(328)
Acquisitions		(124)
Proceeds from divestments:		
Toledo refinery and related inventory	182	837
Other divestments	39	8
Other	13	(9)
Net cash provided by investing activities	12	384
<b>Cash Flows from Financing Activities:</b>		
Net repayments of short-term borrowings	(103)	
Net proceeds from issuance of long-term debt	287	297
Repayments of long-term debt	(454)	(243)
Cash distributions to noncontrolling interests	(62)	(58)
Cash dividend payments	(42)	(36)
Purchase of common stock for treasury	(100)	
Cash of SunCoke Energy, Inc. at spin-off	(111)	
Other	6	4
Net cash used in financing activities	(579)	(36)
Net decrease in cash and cash equivalents	(180)	(9)
Cash and cash equivalents at beginning of period	2,064	1,485
Cash and cash equivalents at end of period	\$ 1,884	\$ 1,476



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(See Accompanying Notes)

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**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****1. General.****Basis of Presentation**

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and U.S. generally accepted accounting principles for interim financial reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management's opinion, all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature, except for the gains resulting from the reduction of crude oil and refined product inventories related to the exit from refining, the gains (losses) related to the divestment of the Toledo refinery and other assets, the gain on the remeasurement of the pipeline equity interests and the provision for asset write-downs and other matters (Notes 3 and 6). Results for the three and six months ended June 30, 2012 are not necessarily indicative of results for the full-year 2012.

**Recently Adopted Changes in Accounting Principles**

In the first quarter of 2012, Sunoco, Inc. (Sunoco or the Company) conformed its presentation of results of operations in accordance with new guidance on the presentation of comprehensive income (loss). The guidance requires total comprehensive income (loss) for interim periods to be presented in a single continuous statement or in two separate, but consecutive, statements. The new guidance does not change where the components of comprehensive income (loss) are recognized. The revised presentation has been retrospectively applied to all periods presented in the Company's condensed consolidated financial statements.

**Proposed Merger with Energy Transfer Partners, L.P.**

On April 30, 2012, Sunoco announced that it had entered into a definitive merger agreement (Merger Agreement) to be acquired by Energy Transfer Partners, L.P. (ETP). Under the terms of the Merger Agreement, which has been unanimously approved by the boards of directors of both companies, Sunoco shareholders can elect to receive, for each Sunoco common share they own, either \$50.00 in cash, 1.0490 ETP common units or a combination of \$25.00 in cash and 0.5245 ETP common units. The aggregate cash paid and common units issued will be capped so that the cash and common units will each represent 50 percent of the aggregate consideration. The cash elections and common unit elections will be subject to proration to satisfy this cap. The Merger Agreement further provides that, in the event of termination of the Merger Agreement under certain circumstances, including in connection with the acceptance of an alternative transaction, Sunoco may be required to pay ETP a termination fee equal to \$225 million. The transaction is expected to close in the fourth quarter of 2012, subject to approval of Sunoco shareholders and customary regulatory approvals.

**2. Discontinued Operations.****Cokemaking Operations**

On July 12, 2011, Sunoco borrowed \$300 million from an affiliate of one of SunCoke Energy Inc.'s initial public offering (IPO) underwriters. On July 26, 2011, an IPO of 13.34 million shares of SunCoke Energy, Inc. (SunCoke Energy) common stock was completed at an offering price of \$16 per share. Sunoco's \$300 million borrowing was satisfied at the closing of the SunCoke Energy IPO through an exchange of the 13.34 million shares of SunCoke Energy stock valued at \$213 million and a cash payment of \$87 million. Sunoco also incurred underwriters commissions and other expenses totaling \$21 million in connection with the offering. At December 31, 2011, Sunoco maintained a controlling financial interest in SunCoke Energy through its ownership of 81 percent of the outstanding shares of SunCoke Energy common stock. In connection with the SunCoke Energy IPO, Sunoco recorded a \$112 million increase in noncontrolling interests and an \$80 million increase in capital in excess of par value. On January 17, 2012, the Company completed the separation of SunCoke Energy from Sunoco by distributing its remaining shares of SunCoke Energy common stock to Sunoco shareholders by means of a spin-off. The distribution was in the form of a pro rata stock dividend which entitled Sunoco shareholders of record on January 5, 2012 to receive 0.53 of a share of SunCoke Energy common stock for each share of Sunoco common stock held. In accordance with current accounting guidance, no gain or loss was recognized in earnings in connection with the spin-off transaction. The spin-off did result in a reduction to equity consisting of pro rata charges of \$143 and \$267 million, respectively, to capital in excess of par value and retained earnings and a \$5 million decrease in the accumulated other comprehensive loss. The reduction to equity included \$16 million of cumulative direct expenses related to the spin-off transaction. SunCoke Energy generally assumed all liabilities associated with Sunoco's cokemaking and coal businesses prior to the date of the spin-off. SunCoke Energy is also

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responsible for all tax liabilities related to Sunoco's cokemaking and coal businesses prior to the spin-off. However, SunCoke Energy is not entitled to any refunds which may occur that are applicable to such periods.

**Table of Contents**

In connection with the separation of SunCoke Energy, certain stock options and common stock units issued under the Company's stock-based incentive plans were modified in January 2012 which affected approximately 60 plan participants. In general, all Sunoco stock options held by Sunoco employees and directors were converted into Sunoco and SunCoke Energy stock options. The terms of the Sunoco stock options are unchanged except for the modification of the exercise price to reflect the change in the price per share of the Sunoco common stock after the spin-off. The SunCoke Energy stock options held by Sunoco employees and directors are fully vested and exercisable. Sunoco stock options held by SunCoke Energy employees were converted to SunCoke Energy stock options. The aggregate intrinsic value of the modified stock options issued on the date of the spin-off is equal to the intrinsic value of the Sunoco stock options which were converted just prior to the spin-off. Outstanding Sunoco common stock units held by Sunoco employees were effectively split into two components representing the Sunoco common stock units and SunCoke Energy common stock units. The Sunoco common stock units remain outstanding under the same terms and conditions as the original awards. The portion of the award representing SunCoke Energy common stock units was vested at the original grant date target amount and such value was paid out in cash based upon the market value of the SunCoke Energy stock on the date of the spin-off, subject to a clawback provision if the employee voluntarily leaves Sunoco prior to the earlier of the original vesting date for the common stock units or one year. These modifications resulted in a \$7 million cash payment and a \$14 million pretax charge for stock-based compensation expense recognized during the first half of 2012. Additional stock-based compensation expense of \$2 million related to these modifications will be recognized through the first quarter of 2013. All Sunoco common stock units held by SunCoke Energy employees were converted into SunCoke Energy common stock units which vest over the remaining term of the original award. All SunCoke Energy common stock issued as a result of option exercises or the vesting of common stock units will be issued under SunCoke Energy's incentive stock compensation plan.

The following table sets forth the components of Sunoco's net investment in SunCoke Energy immediately preceding the spin-off and the net charge to Sunoco, Inc. shareholders' equity (in millions of dollars):

Current assets	\$ 396
Properties, plants and equipment, net	1,485
Deferred charges and other assets	82
<b>Total assets</b>	<b>1,963</b>
Current liabilities	257
Long-term debt	723
Retirement benefit liabilities	51
Deferred income taxes	326
Other deferred credits and liabilities	66
<b>Total liabilities</b>	<b>1,423</b>
Noncontrolling interests	151
<b>Sunoco net investment</b>	<b>389</b>
Direct expenses	16
<b>Net charge to Sunoco, Inc. shareholders' equity</b>	<b>\$ 405</b>

**Chemicals Operations**

In March 2010, Sunoco completed the sale of the common stock of its polypropylene chemicals business to Braskem S.A. ( Braskem ). The assets sold as part of this transaction included the polypropylene manufacturing facilities in LaPorte, TX, Neal, WV, and Marcus Hook, PA, a propylene supply agreement and related inventory. Sunoco recognized a net loss of \$169 million (\$44 million after tax) in the first quarter of 2010 related to the divestment. Cash proceeds from this divestment of \$348 million were received in the second quarter of 2010. In the fourth quarter of 2011, Sunoco recognized a \$4 million additional tax provision related to the sale.

In July 2011, Sunoco completed the sale of its phenol and acetone chemicals manufacturing facility in Philadelphia, PA ( Frankford Facility ) and related inventory to an affiliate of Honeywell International Inc. ( Honeywell ). In connection with this agreement, Sunoco recorded a \$118 million provision (\$70 million after tax) to write down Frankford Facility assets to their estimated fair values during the second quarter of 2011. Sunoco received total cash proceeds of \$88 million in the third quarter of 2011 and recognized a \$7 million gain (\$4 million after tax) on the divestment.

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Sunoco was party to a cumene supply agreement with the Frankford Facility which the Company elected to terminate effective June 30, 2012 in connection with its decision to exit the refining business.

In October 2011, Sunoco completed the sale of its phenol manufacturing facility in Haverhill, OH ( Haverhill Facility ) and related inventory to an affiliate of Goradia Capital LLC. Sunoco recorded a \$169 million provision (\$101 million after tax) to write down Haverhill Facility assets to their estimated fair values during the second quarter of 2011. Sunoco received total cash proceeds of

**Table of Contents**

\$93 million and recognized a \$6 million gain (\$4 million after tax) on the divestment in the fourth quarter of 2011. During the first half of 2012, Sunoco recognized a \$3 million loss (\$2 million after tax) attributable to pension settlement losses related to the Haverhill Facility sale.

**Tulsa Refining Operations**

In the second quarter of 2012, Sunoco recorded an \$8 million gain (\$5 million after tax) attributable to a partial settlement of a low sulfur diesel credit liability related to the Company's discontinued Tulsa refining operations which were sold in 2009.

The results of operations of Sunoco's cokemaking, chemicals and Tulsa refining operations have been classified as discontinued operations for all periods presented in the condensed consolidated statements of comprehensive income (loss) and related footnotes.

The following is a summary of income (loss) from discontinued operations attributable to Sunoco, Inc. shareholders for the three and six months ended June 30, 2012 and 2011 (in millions of dollars):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Income (loss) before income tax expense (benefit)	\$ 6	\$ (255)	\$ 8	\$ (259)
Income tax expense (benefit)	2	(116)	2	(111)
Income (loss) from discontinued operations	4	(139)	6	(148)
Less: Income (loss) from discontinued operations attributable to noncontrolling interests		3	1	(5)
Income (loss) from discontinued operations attributable to Sunoco, Inc. shareholders	\$ 4	\$ (142)	\$ 5	\$ (143)

Sales and other operating revenue (including consumer excise taxes) from discontinued operations totaled \$87 million for the three months ended March 31, 2012 and \$704 and \$1,335 million, respectively, for the three and six-month periods ended June 30, 2011.

**3. Changes in Business and Other Matters.****Acquisitions**

In January 2011, SunCoke Energy acquired Harold Keene Coal Co., Inc. (HKCC), based in Honaker, VA, for \$52 million. The purchase price included a net cash payment of \$38 million and contingent consideration totaling \$14 million.

In May 2011, Sunoco Logistics Partners L.P. (the Partnership) obtained a controlling financial interest in Inland Corporation (Inland) through a series of transactions involving Sunoco and a third party. Sunoco exercised its rights to acquire additional ownership interests in Inland for \$56 million, net of cash received, and the Partnership purchased additional ownership interests from a third party for \$30 million. The Partnership's total ownership interest in Inland increased to 84 percent after it purchased all of Sunoco's interests. As a result of these transactions, Inland became a consolidated subsidiary of Sunoco and, in connection therewith, Sunoco recognized a \$9 million gain (\$6 million after tax) from the remeasurement of its pre-acquisition equity interests in Inland to fair value upon consolidation. This gain is reported in other income, net, in the condensed consolidated statements of comprehensive income (loss).

**Table of Contents**

The following table summarizes the effects of Sunoco's acquisitions during the first half of 2011 on the consolidated financial position (including the consolidation of Inland and the recognition of the related gain from the remeasurement of the pre-acquisition equity interests) (in millions of dollars):

	HKCC	Inland	Total
Increase in:			
Current assets	\$ 8	\$ 3	\$ 11
Properties, plants and equipment	64	178	242
Deferred charges and other assets	8*		8
Current liabilities	(4)	(5)	(9)
Deferred income taxes	(23)	(60)	(83)
Other deferred credits and liabilities	(1)	(1)	(2)
Sunoco, Inc. shareholders' equity		(6)	(6)
Noncontrolling interests		(20)	(20)
Decrease in:			
Investments and long-term receivables		(3)	(3)
	52	86	138
Contingent consideration	(14)		(14)
Cash paid for acquisitions, net of cash received	\$ 38	\$ 86	\$ 124

\* Includes \$6 million allocated to goodwill.

No pro forma information has been presented since the impact of these acquisitions was not material in relation to Sunoco's consolidated financial position and results of operations.

**Divestments**

On March 1, 2011, Sunoco completed the sale of its Toledo refinery and related crude oil and refined product inventories to a wholly owned subsidiary of PBF Holding Company LLC. The Company received \$1,037 million in net proceeds consisting of \$546 million in cash at closing, a \$200 million two-year note receivable, a \$285 million note receivable due in 90 days and \$6 million in cash related to working capital adjustments subsequent to closing. Sunoco received \$309 million in 2011 related to note receivable balances and the working capital adjustment. The remaining \$182 million note receivable balance was received in February 2012. Sunoco recognized a \$6 million net pretax gain (\$1 million loss after tax) related to the divestment in the first half of 2011 and recognized a total net pretax gain of \$2 million (\$4 million loss after tax) in connection with this divestment for the year 2011. The net gain on divestment recorded in 2011 includes a pretax gain of \$535 million attributable to the sale of crude oil and refined product inventories. In addition, the purchase agreement included a participation payment of up to \$125 million based on the future profitability of the refinery. Sunoco recorded a \$104 million gain (\$61 million after tax) related to the participation agreement in the first quarter of 2012. Sunoco received the participation payment in April 2012. The results of operations for the Toledo refinery have not been classified as discontinued operations due to Sunoco's continuing involvement with the Toledo refinery through a three-year agreement for the purchase of gasoline and distillate to supply Sunoco retail sites in this area.

**Asset Write-Downs and Other Matters**

The following table summarizes information regarding the provision for asset write-downs and other matters recognized during the six months ended June 30, 2012 and 2011 (in millions of dollars):

	2012		2011	
	Pretax	After tax	Pretax	After tax
Philadelphia and Marcus Hook refineries	\$ (14)	\$ (6)	\$	\$

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Environmental matters	53	31		
Other	69	43	13	8
	\$ 108	\$ 68	\$ 13	\$ 8

In September 2011, Sunoco announced its decision to exit the refining business and initiated a formal process to sell its remaining refineries located in Philadelphia and Marcus Hook, PA (together, the Northeast Refineries ). Sunoco indefinitely idled the main processing units at its Marcus Hook refinery in December 2011 due to deteriorating refining market conditions. As the Company has received no proposals to purchase Marcus Hook as a refinery, Sunoco is pursuing options for alternate uses of the Marcus Hook facility. In connection with the decision to exit the refining business, Sunoco recorded a \$2,363 million noncash provision (\$1,405 million after tax) primarily to write down long-lived assets at the Northeast Refineries to their estimated fair values and recorded provisions for severance, contract terminations and idling expenses of \$248 million (\$144 million after tax) in the second



**Table of Contents**

half of 2011. The accruals recorded in 2011 include an estimated loss to terminate a ten-year polymer-grade polypropylene supply contract with Braskem entered into in connection with the sale of Sunoco's discontinued polypropylene chemicals business in March 2010. This \$130 million accrual was paid in June 2012. In the first quarter of 2012, Sunoco recorded additional provisions of \$35 million (\$21 million after tax) primarily attributable to severance, contract terminations and idling expenses and additional asset write-downs related to the Northeast Refineries. In July 2012, Sunoco announced that it has agreed to form Philadelphia Energy Solutions, a joint venture with The Carlyle Group, at its Philadelphia refinery. Sunoco will contribute its Philadelphia refinery property, plant and equipment which had a carrying value of \$46 million at June 30, 2012 and various commercial contracts, including contracts with the Partnership, in exchange for a non-operating minority interest of approximately 33 percent. The Carlyle Group will hold the majority interest and oversee day-to-day operations of the joint venture and the refinery. The Carlyle Group will contribute cash to the joint venture which is expected to fund future capital projects, facility upgrades and to enhance working capital. Sunoco will not have ongoing capital obligations with respect to the refinery; however, future cash calls to the partners could result in a dilution of Sunoco's interest if the Company chooses not to participate. Sunoco is expected to realize cash proceeds for the liquidation of working capital related to the refinery, including crude oil and refined product inventory. The transaction is subject to customary closing conditions and The Carlyle Group's ability to secure capital, including working capital financing, for this investment. JPMorgan Chase has committed, subject to certain closing conditions, to provide working capital financing for intermediate products owned by the refinery in the form of an asset-backed loan and is expected to supply crude oil to the refinery at the time of processing and purchase all finished refined products as they are produced. Sunoco will enter into a ten-year supply contract for gasoline and diesel for its retail marketing business which would initially represent approximately 50 percent of the refinery's total production. The joint venture transactions are expected to close in the third quarter of 2012. As a result of the joint venture agreement with The Carlyle Group, Sunoco reversed certain severance, contract termination and idling reserves as such expenses are no longer expected to be incurred. The Company recognized a \$64 million gain (\$35 million after tax) in the second quarter of 2012 related to these reversals. This \$35 million after tax change in estimate increased net income attributable to Sunoco, Inc. shareholders by \$0.33 per share of common stock on a diluted basis for the three months ended June 30, 2012. The Company also recorded a \$15 million provision (\$8 million after tax) largely related to pension settlement losses attributable to refining operations in the second quarter of 2012. Additional provisions of up to \$130 million are expected to be incurred, primarily related to modification or termination of existing contracts of the refining business which are not assumed by, or require restructuring for, Philadelphia Energy Solutions and pension settlement costs which are recognized when employees of the Philadelphia and Marcus Hook refineries receive pension lump sum payments. The Company reduced crude oil and refined product inventory quantities at the Northeast Refineries during the first half of 2012 which resulted in gains of \$710 million (\$423 million after tax). Sunoco expects to record additional pretax gains of approximately \$1.3 billion related to the liquidation of additional inventories at the Northeast Refineries based on current market prices. The actual amount of additional gains will depend upon the market value of crude oil and refined products and the volumes on hand at the time of liquidation.

Sunoco recorded charges for environmental remediation matters at its current and former refineries totaling \$53 million (\$31 million after tax) in the first quarter of 2012. For additional information concerning these charges, see Note 7.

The Company also recorded provisions of \$69 and \$13 million (\$43 and \$8 million after tax) during the first half of 2012 and 2011, respectively. The amount recorded in 2012 was largely attributable to insurance reserve adjustments of \$30 million (\$18 million after tax), additional stock-based compensation expense of \$23 million (\$14 million after tax) related to the spin-off of SunCoke Energy and employee termination agreements, and \$12 million of expenses (\$8 million after tax) related to the Merger Agreement. The amount recorded in 2011 was attributable to pension settlement losses and asset write-downs.

The \$18 million after-tax provision related to insurance reserve adjustments was attributable to a change in estimate associated with the Company's incurred but not reported claims attributable to hazardous substances. This provision decreased net income attributable to Sunoco, Inc. shareholders by \$0.17 per share of common stock on a diluted basis for the six-month period ended June 30, 2012.

The following table summarizes the changes in the liability for employee terminations and other exit costs (in millions of dollars):

	<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Balance at beginning of period	\$ 294	\$ 79
Additional accruals	(36)	
Payments charged against the accruals	(152)	(17)
Balance at end of period	\$ 106	\$ 62



**Table of Contents****4. Income Taxes.**

The following table summarizes the components of pretax income (loss) and income tax expense (benefit) from continuing operations (in millions of dollars):

	Three Months Ended June 30,					
	2012	2012	After-Tax	2011	2011	After-Tax
	Pretax Income (Loss)	Tax Expense (Benefit)	Income (Loss)	Pretax Income (Loss)	Tax Expense (Benefit)	Income (Loss)
Income (loss) attributable to Sunoco, Inc. shareholders before discrete items	\$ 197	\$ 70	\$ 127	\$ 42	\$ 21	\$ 21
Discrete items:						
Sale of Toledo refinery				(9)	(4)	(5)
LIFO inventory gains	213	92	121			
Provision for asset write-downs and other matters	(4)	1	(5)	(7)	(3)	(4)
Gain on consolidation of pipeline equity interests				9	3	6
Other	(2)	(3)	1		1	(1)
Income attributable to noncontrolling interests	90	3	87	53	2	51
	\$ 494	\$ 163	\$ 331	\$ 88	\$ 20	\$ 68

	Six Months Ended June 30,					
	2012	2012	After-Tax	2011	2011	After-Tax
	Pretax Income (Loss)	Tax Expense (Benefit)	Income (Loss)	Pretax Income (Loss)	Tax Expense (Benefit)	Income (Loss)
Income (loss) attributable to Sunoco, Inc. shareholders before discrete items	\$ 116	\$ 45	\$ 71	\$ (103)	\$ (9)	\$ (94)
Discrete items:						
Sale of Toledo refinery	104	43	61	6	7	(1)
LIFO inventory gains	710	287	423	42	16	26
Provision for asset write-downs and other matters	(113)	(45)	(68)	(13)	(5)	(8)
Gain on consolidation of pipeline equity interests				9	3	6
Deferred tax adjustment					5	(5)
Other	(2)	(6)	4		7	(7)
Income attributable to noncontrolling interests	148	9	139	85	5	80
	\$ 963	\$ 333	\$ 630	\$ 26	\$ 29	\$ (3)

The effective tax rate on income (loss) attributable to Sunoco, Inc. shareholders before discrete items was 36 and 50 percent for the three months ended June 30, 2012 and 2011, respectively, and 39 and 9 percent, respectively, for the six month periods then ended.

**Table of Contents****5. Earnings Per Share Data.**

The following table sets forth the reconciliation of the weighted-average number of common shares used to compute basic earnings per share (EPS) to those used to compute diluted EPS (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011*	2012	2011*
Weighted-average number of common shares outstanding-basic	105.0	121.1	105.8	121.0
Add effect of dilutive stock incentive awards	0.4		0.5	
Weighted-average number of shares-diluted	105.4	121.1	106.3	121.0

\* Since the assumed issuance of common stock under stock incentive awards would not have been dilutive, the weighted-average number of shares used to compute diluted EPS is equal to the weighted-average number of shares used in the basic EPS computation.

**6. Inventories.**

Inventories consisted of the following components (in millions of dollars):

	At June 30, 2012	At December 31, 2011
Crude oil	\$ 327	\$ 204
Petroleum and chemical products	87	120
Coal and coke		190
Materials, supplies and other	48	73
	\$ 462	\$ 587

In connection with its exit from the refining business, Sunoco reduced crude oil and refined product inventory quantities resulting in LIFO inventory profits of \$710 and \$42 million (\$423 and \$26 million after tax) during the first six months of 2012 and 2011, respectively (Note 3). The net gain on divestment of the Toledo refinery recognized during 2011 includes LIFO inventory profits of \$535 million (\$321 million after tax). At June 30, 2012, the current replacement cost of all inventories valued at LIFO exceeded their carrying values by \$1.90 billion.

**7. Commitments and Contingent Liabilities.****Commitments**

Over the years, Sunoco has sold thousands of retail gasoline outlets as well as refineries, terminals, coal mines, oil and gas properties and various other assets. In connection with these sales, the Company has indemnified the purchasers for potential environmental and other contingent liabilities related to the periods prior to the transaction dates. In most cases, the effect of these arrangements was to afford protection for the purchasers with respect to obligations for which the Company was already primarily liable. While some of these indemnities have spending thresholds which must be exceeded before they become operative, or limits on Sunoco's maximum exposure, they generally are not limited. The Company recognizes the fair value of the obligations undertaken for all guarantees entered into or modified after January 1, 2003. In addition, the Company accrues for any obligations under these agreements when a loss is probable and reasonably estimable. The Company cannot reasonably estimate the maximum potential amount of future payments under these agreements.

**Environmental Remediation Activities**

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Sunoco is subject to extensive and frequently changing federal, state and local laws and regulations, including, but not limited to, those relating to the discharge of materials into the environment or that otherwise relate to the protection of the environment, waste management and the characteristics and composition of fuels. As with the industry generally, compliance with existing and anticipated laws and regulations increases the overall cost of operating Sunoco's businesses, including remediation, operating costs and capital costs to construct, maintain and upgrade equipment and facilities.

**Table of Contents**

Existing laws and regulations result in liabilities and loss contingencies for remediation at Sunoco's facilities and at formerly owned or third-party sites. The accrued liability for environmental remediation is classified in the condensed consolidated balance sheets as follows (in millions of dollars):

	At June 30, 2012	At December 31, 2011
Accrued liabilities	\$ 35	\$ 35
Other deferred credits and liabilities	133	75
	<b>\$ 168</b>	<b>\$ 110</b>

The following table summarizes the changes in the accrued liability for environmental remediation activities which is largely attributable to Sunoco's currently and formerly owned retail and refining sites (in millions of dollars):

	Six Months Ended June 30,	
	2012	2011
Balance at beginning of period	\$ 110	\$ 115
Accruals	68	10
Payments	(17)	(14)
Other	7	2
Balance at end of period	<b>\$ 168</b>	<b>\$ 113</b>

In February 2012, Sunoco announced that it intends to contribute approximately \$250 million by the end of 2012 to establish a segregated environmental fund by means of a captive insurance company to be used for the remediation of legacy environmental obligations. These legacy sites that are subject to environmental assessments include formerly owned terminals and other logistics assets, retail sites that Sunoco no longer operates, closed and/or sold refineries and other formerly owned sites. In connection with the Merger Agreement, Sunoco has agreed to defer implementation of the segregated environmental fund.

In connection with the analysis of the environmental fund and the Company's impending exit from refining operations, Sunoco has been conducting ongoing studies of its future remediation costs, including the engagement of insurance actuaries to assist in the evaluation. It has also been examining the assumptions used in determining these estimates. As a result of this analysis and increased interest from regulatory and legislative officials, Sunoco recorded a \$53 million increase (\$31 million after tax) to its environmental remediation liabilities associated with its current and former refining locations during the first quarter of 2012. This change in estimate decreased net income attributable to Sunoco, Inc. shareholders by \$0.29 per share of common stock on a diluted basis. The additional accrual relates primarily to an increase in number of operating and monitoring systems which are expected to be installed and the length of time that operation of current and future systems is expected to be required. The amounts accrued also included higher environmental remediation costs at certain sites as a result of changes in the remediation methods required and their expected costs as reflected in recently executed contracts with third-party contractors.

Sunoco's accruals for environmental remediation activities reflect management's estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are both probable and reasonably estimable. Engineering studies, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated accruals for environmental remediation activities. Losses attributable to unasserted claims are also reflected in the accruals to the extent they are probable of occurrence and reasonably estimable. Such accruals are undiscounted. In general, each remediation site/issue is evaluated individually based upon information available for the site/issue and no pooling or statistical analysis is used to evaluate an aggregate risk for a group of similar items (e.g., service station sites) in determining the amount of probable loss accrual to be recorded. Sunoco's estimates of environmental remediation costs also frequently involve evaluation of a range of estimates. In many cases, it is difficult to determine that one point in the range of loss estimates is more likely than any other. In these situations, existing accounting guidance requires that the minimum of the range be accrued. Accordingly, the low end of the range often represents the amount of loss which has been recorded.

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Total future costs for the environmental remediation activities identified above will depend upon, among other things, the identification of any additional sites, the determination of the extent of the contamination at each site, the timing and nature of required remedial actions, the nature of operations at each site, the technology available and needed to meet the various existing legal requirements, the nature and terms of cost-sharing arrangements with other potentially responsible parties, the availability of insurance coverage, the nature and extent of future environmental laws and regulations, inflation rates, terms of consent agreements or remediation permits with regulatory agencies and the determination of Sunoco's liability at the sites, if any, in light of the number, participation level and financial viability of the other parties. Management believes it is reasonably possible (i.e., less than probable but greater than remote) that additional environmental remediation losses will be incurred. At June 30, 2012, the aggregate of the estimated maximum additional reasonably possible losses, which relate to numerous individual sites, totaled approximately \$200 million. This estimate of reasonably possible losses associated with environmental remediation is largely based upon analysis during

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**Table of Contents**

2011 and continuing into early 2012 of the potential liabilities associated with the analysis of the segregated environmental fund described above. It also includes estimates for remediation activities at current logistics and retail assets. This reasonably possible loss estimate in many cases reflects the upper end of the loss ranges which are described above. Such estimates include potentially higher contractor costs for expected remediation activities, the potential need to use more costly or comprehensive remediation methods and longer operating and monitoring periods, among other things.

Under various environmental laws, including the Resource Conservation and Recovery Act ( RCRA ) (which relates to solid and hazardous waste treatment, storage and disposal), Sunoco has initiated corrective remedial action at its facilities, formerly owned facilities and third-party sites. At the Company's major manufacturing facilities, Sunoco has consistently assumed continued industrial use and a containment/remediation strategy focused on eliminating unacceptable risks to human health or the environment. The remediation accruals for these sites reflect that strategy. Accruals include amounts to prevent off-site migration and to contain the impact on the facility property, as well as to address known, discrete areas requiring remediation within the plants. Activities include closure of RCRA solid waste management units, recovery of hydrocarbons, handling of impacted soil, mitigation of surface water impacts and prevention of off-site migration. A change in this approach as a result of changing the intended use of a property or a sale to a third party could result in a higher cost remediation strategy in the future.

Sunoco owns or operates certain retail gasoline outlets where releases of petroleum products have occurred. Federal and state laws and regulations require that contamination caused by such releases at these sites and at formerly owned sites be assessed and remediated to meet the applicable standards. The obligation for Sunoco to remediate this type of contamination varies, depending on the extent of the release and the applicable laws and regulations. A portion of the remediation costs may be recoverable from the reimbursement fund of the applicable state, after any deductible has been met.

The accrued liability for hazardous waste sites is attributable to potential obligations to remove or mitigate the environmental effects of the disposal or release of certain pollutants at third-party sites pursuant to the Comprehensive Environmental Response Compensation and Liability Act ( CERCLA ) (which relates to releases and remediation of hazardous substances) and similar state laws. Under CERCLA, Sunoco is potentially subject to joint and several liability for the costs of remediation at sites at which it has been identified as a potentially responsible party ( PRP ). As of June 30, 2012, Sunoco had been named as a PRP at 36 sites identified or potentially identifiable as Superfund sites under federal and state law. The Company is usually one of a number of companies identified as a PRP at a site. Sunoco has reviewed the nature and extent of its involvement at each site and other relevant circumstances and, based upon the other parties involved or Sunoco's level of participation therein, believes that its potential liability associated with such sites will not be significant.

Management believes that none of the current remediation locations, which are in various stages of ongoing remediation, is individually material to Sunoco as its largest accrual for any one Superfund site, operable unit or remediation area was approximately \$30 million at June 30, 2012. As a result, Sunoco's exposure to adverse developments with respect to any individual site is not expected to be material. However, if changes in environmental laws or regulations occur or the assumptions used to estimate losses at multiple sites are adjusted as was the case in the first quarter of 2012, such changes could impact multiple Sunoco facilities, formerly owned facilities and third-party sites at the same time. As a result, from time to time, significant charges against earnings for environmental remediation may occur; however, management does not believe that any such charges would have a material adverse impact on the Company's consolidated financial position.

The Company maintains insurance programs that cover certain of its existing or potential environmental liabilities, which programs vary by year, type and extent of coverage. For underground storage tank remediations, the Company can also seek reimbursement through various state funds of certain remediation costs above a deductible amount. For certain acquired properties, the Company has entered into arrangements with the sellers or others that allocate environmental liabilities and provide indemnities to the Company for remediating contamination that occurred prior to the acquisition dates. Some of these environmental indemnifications are subject to caps and limits. No accruals have been recorded for any potential contingent liabilities that will be funded by the prior owners as management does not believe, based on current information, that it is likely that any of the former owners will not perform under any of these agreements. Other than the preceding arrangements, the Company has not entered into any arrangements with third parties to mitigate its exposure to loss from environmental contamination. Claims for recovery of environmental liabilities that are probable of realization totaled \$18 million at June 30, 2012 and are included principally in deferred charges and other assets in the condensed consolidated balance sheets.

**Regulatory Matters**

Through the operation of its refining and marketing facilities, Sunoco's operations emit greenhouse gases ( GHG ), including carbon dioxide. There are various legislative and regulatory measures to address GHG emissions which are in various stages of review, discussion or implementation. Current proposals being considered by Congress include cap and trade legislation and carbon taxation legislation. One current cap and trade bill proposes a system which would require the Company to provide carbon emission allowances for emissions at its manufacturing facilities as well as emissions caused by the use of fuels it sells. The cap and trade program would require affected businesses to buy emission credits from the government, other businesses or through an auction





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## **Table of Contents**

process. The exact amount of such costs, as well as those that could result from any carbon taxation would not be established until the future. However, the Company believes that these costs could be material, and there is no assurance that the Company would be able to recover them in the sale of its products. Other federal and state actions to develop programs for the reduction of GHG emissions are also being considered. In addition, the EPA has indicated that it intends to regulate carbon dioxide emissions. While it is currently not possible to predict the impact, if any, that these issues will have on the Company or the industry in general, they could result in increases in costs to operate and maintain the Company's facilities, as well as capital outlays for new emission control equipment at these facilities. In addition, regulations limiting GHG emissions or carbon content of products, which target specific industries such as petroleum refining, and proposals to significantly increase automobile fleet efficiency and potentially eliminate the ethanol tax credit are also under consideration. If enacted, such proposals could adversely affect the Company's ability to conduct its business and also may reduce demand for its products.

### **MTBE Litigation**

Sunoco, along with other refiners, manufacturers and sellers of gasoline, is a defendant in lawsuits alleging MTBE contamination of groundwater. The plaintiffs typically include water purveyors and municipalities responsible for supplying drinking water and governmental authorities. The plaintiffs are asserting primarily product liability claims and additional claims including nuisance, trespass, negligence, violation of environmental laws and deceptive business practices. The plaintiffs in all of the cases are seeking to recover compensatory damages, and in some cases, injunctive relief, punitive damages and attorneys' fees.

As of June 30, 2012, Sunoco was a defendant in three lawsuits involving two states and Puerto Rico. Two of the cases are venued in a multidistrict proceeding in a New York federal court. The remaining lawsuit is pending in a New Hampshire state court. All three cases assert natural resource damage claims. In addition, Sunoco has received notice from another state that it intends to file an MTBE lawsuit in the near future asserting natural resource damage claims.

Discovery is proceeding in all of these cases and accruals have been established where the losses are probable and reasonably estimable. In two of the cases, there has been insufficient information developed about the plaintiffs' legal theories or the facts in the natural resource damage claims that would be relevant to an analysis of the ultimate liability of Sunoco in these matters; however, it is reasonably possible that a loss may be realized. Management believes that the MTBE cases could have a significant impact on results of operations for any future period, but does not believe that the cases will have a material adverse effect on its consolidated financial position.

### **Other**

Sunoco is subject to tax indemnity agreements with current and former third-party investors of the Indiana Harbor and Jewell operations of its former consolidated subsidiary, SunCoke Energy. The agreements relate to certain tax benefits that the third-party investors earned as limited partners. Based on the partnerships' statute of limitations, as well as published filings of the limited partners, tax audits for years 2006 and 2007 may still be open for the limited partners and subject to examination, relating to tax credits of approximately \$50 million. Under these agreements, SunCoke Energy has the primary obligation while Sunoco provides a guarantee of SunCoke Energy's performance. In the third quarter of 2011, concurrent with SunCoke Energy's purchase of the 19 percent ownership interest from one of the Indiana Harbor limited partners, Sunoco was released of its guarantee to the former Indiana Harbor partner of SunCoke Energy's performance under this indemnification.

### **Conclusion**

Many other legal and administrative proceedings are pending or may be brought against Sunoco arising out of its current and past operations, including matters related to commercial and tax disputes, product liability, antitrust, employment claims, leaks from pipelines and underground storage tanks, natural resource damage claims, premises-liability claims, allegations of exposures of third parties to toxic substances (such as benzene or asbestos) and general environmental claims. Although the ultimate outcome of these proceedings and other matters identified above cannot be ascertained at this time, it is reasonably possible that some of these matters could be resolved unfavorably to Sunoco. Management believes that these matters could have a significant impact on results of operations for any future period. However, management does not believe that any additional liabilities which may arise pertaining to such matters would be material in relation to the consolidated financial position of Sunoco at June 30, 2012.

**Table of Contents****8. Retirement Benefit Plans.**

The following tables set forth the components of defined benefit plans and postretirement benefit plans expense (benefit) (in millions of dollars):

	Defined Benefit Plans		Postretirement Benefit Plans	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2012	2011	2012	2011
Service cost (cost of benefits earned during the year)	\$ 2	\$ 2	\$	\$ 1
Interest cost on benefit obligations	9	14	1	4
Expected return on plan assets	(14)	(17)	(1)	
Amortization of:				
Actuarial losses	6	8	1	3
Prior service benefit			(4)	(5)
	3	7	(3)	3
Settlement losses*	16	15		
Total expense (benefit)	\$ 19	\$ 22	\$ (3)	\$ 3

	Defined Benefit Plans		Postretirement Benefit Plans	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Service cost (cost of benefits earned during the year)	\$ 4	\$ 4	\$	\$ 1
Interest cost on benefit obligations	19	27	3	8
Expected return on plan assets	(29)	(34)	(1)	
Amortization of:				
Actuarial losses	12	17	2	6
Prior service benefit			(6)	(10)
	6	14	(2)	5
Settlement losses*	23	24		
Special termination benefits and curtailment losses (gains)*		7	(1)	(2)
Total expense (benefit)	\$ 29	\$ 45	\$ (3)	\$ 3

\* Includes settlement losses of \$3 million attributable to discontinued operations recognized during the first quarter of 2012. Also includes special termination benefits and settlement losses of \$9 and \$16 million recognized during the three and six months ended June 30, 2011, respectively, attributable to the Toledo refinery (Notes 2 and 3).

In March 2012, the Company made a \$200 million tax-deductible contribution to trusts established for its postretirement benefit liabilities and restructured the retiree medical plan to eliminate Sunoco's liability beyond this funded amount. The retiree medical plan change eliminates substantially all of the Company's future exposure to variances between actual results and assumptions used to estimate retiree medical plan obligations. As a result of the plan change, the Company's postretirement benefits obligation declined by approximately \$60 million. The benefit of this liability reduction will be amortized into earnings through 2018. At June 30, 2012, the trusts were invested primarily in fixed income securities with approximately ten percent in domestic equity investments.



**Table of Contents****9. Comprehensive Income (Loss).**

The following tables set forth comprehensive income (loss) attributable to Sunoco, Inc. shareholders and the noncontrolling interests (in millions of dollars):

	Three Months Ended June 30,					
	Sunoco, Inc. Shareholders	2012 Non- controlling Interests	Total	Sunoco, Inc. Shareholders	2011 Non- controlling Interests	Total
Income from continuing operations	\$ 244	\$ 87	\$ 331	\$ 17	\$ 51	\$ 68
Income (loss) from discontinued operations	4		4	(142)	3	(139)
Net income (loss)	248	87	335	(125)	54	(71)
Other comprehensive income (loss), net of related income taxes:						
Reclassification to earnings of settlement and curtailment losses and prior service benefit and actuarial loss amortization	12		12	12		12
Net hedging gains	18		18	10		10
Reclassification of net hedging gains to earnings	(21)		(21)	(6)		(6)
Comprehensive income (loss)	\$ 257	\$ 87	\$ 344	\$ (109)	\$ 54	\$ (55)

	Six Months Ended June 30,					
	Sunoco, Inc. Shareholders	2012 Non- controlling Interests	Total	Sunoco, Inc. Shareholders	2011 Non- controlling Interests	Total
Income (loss) from continuing operations	\$ 491	\$ 139	\$ 630	\$ (83)	\$ 80	\$ (3)
Income (loss) from discontinued operations	5	1	6	(143)	(5)	(148)
Net income (loss)	496	140	636	(226)	75	(151)
Other comprehensive income (loss), net of related income taxes:						
Reclassification to earnings of settlement and curtailment losses and prior service benefit and actuarial loss amortization	18		18	21		21
Retirement benefit plans funded status adjustment	38		38			
Net hedging losses	(13)	(3)	(16)	(5)		(5)
Reclassification of net hedging losses to earnings	9	1	10	7		7
Net increase in unrealized gain on available-for-sale securities	1		1			
Comprehensive income (loss)	\$ 549	\$ 138	\$ 687	\$ (203)	\$ 75	\$ (128)

**Table of Contents****10. Equity.**

The following table sets forth the components of equity (in millions of dollars):

	At June 30, 2012	At December 31, 2011
Sunoco, Inc. shareholders' equity:		
Common stock, par value \$1 per share	\$ 282	\$ 282
Capital in excess of par value	1,692*	1,811
Retained earnings	4,134*	3,947
Accumulated other comprehensive loss	(200)*	(258)
Common stock held in treasury, at cost	(4,992)	(4,889)
	916	893
Noncontrolling interests	830	907
<b>Total equity</b>	<b>\$ 1,746</b>	<b>\$ 1,800</b>

\* Reflects charges associated with the spin-off of SunCoke Energy, Inc. (Note 2).

**Sunoco, Inc. Shareholders' Equity**

In February 2012, the Company's Board of Directors approved a plan to repurchase up to 19.9 percent of Sunoco's outstanding common stock at the time, or approximately 21.25 million shares. The planned repurchase was expected to occur over the next 12 to 18 months. During the first half of 2012, Sunoco repurchased 2.55 million shares of its outstanding common stock for \$100 million under this plan. In connection with the Merger Agreement, Sunoco has agreed to suspend its repurchase program.

In February 2012, the Company announced a 33 percent increase in its quarterly dividend to \$0.20 per share (\$0.80 per year). The higher dividend was effective for the dividend paid in March 2012. In July 2012, the Company declared a \$0.20 per share cash dividend for the third quarter of 2012. The dividend will be paid on August 27, 2012 to shareholders of record on August 8, 2012.

**Noncontrolling Interests***Logistics Operations*

Sunoco is the general partner of Sunoco Logistics Partners L.P., which consists of a 2-percent ownership interest and incentive distribution rights, and currently owns a 32-percent interest in the Partnership's limited partner units. On December 2, 2011, the Partnership completed a three-for-one split of its limited partnership units. The unit split resulted in the issuance of two additional limited partnership units for every one limited partnership unit owned.

In May 2011, the Partnership obtained a controlling financial interest in Inland through a series of transactions involving Sunoco and a third party. As a result, Inland was reflected as a consolidated subsidiary of Sunoco and, in connection therewith, Sunoco recorded an \$18 million increase in noncontrolling interests upon consolidation of the entity in the second quarter of 2011 (Note 3).

The Partnership distributes to its general and limited partners all available cash (generally cash on hand at the end of each quarter less the amount of cash the general partner determines in its reasonable discretion is necessary or appropriate to provide for the proper conduct of the Partnership's business).

**Table of Contents**

The following table describes the Partnership's target distribution levels and distribution allocations between the general partner and the holders of the Partnership's limited partner units under the current incentive distribution right structure:

	Total Quarterly Distribution Target Amount	Marginal Percentage Interest in Distributions	
		General Partner	Unitholders
		Minimum Quarterly Distribution	\$0.1500
First Target Distribution	up to \$ 0.1667	2%	98%
Second Target Distribution	above \$ 0.1667 up to \$ 0.1917	15%*	85%
Third Target Distribution	above \$ 0.1917 up to \$ 0.5275	37%*	63%
Thereafter	above \$ 0.5275	50%*	50%

\* Includes Sunoco's 2-percent general partner interest.

*Discontinued Cokemaking Operations*

On July 26, 2011, an IPO of 13.34 million shares of SunCoke Energy common stock was completed at an offering price of \$16 per share reducing Sunoco's interest in SunCoke Energy to 81 percent. On January 17, 2012, the Company completed the separation of SunCoke Energy from Sunoco by distributing its remaining shares of SunCoke Energy common stock to Sunoco shareholders by means of a spin-off. For additional information concerning these transactions, see Note 2.

The following table sets forth the noncontrolling interest balances and the changes to these balances (in millions of dollars):

	Logistics Operations	Discontinued Cokemaking Operations	Total
Balance at December 31, 2010	\$ 692	\$ 61	\$ 753
Noncontrolling interests share of income (loss)	80	(5)	75
Cash distributions	(57)	(1)	(58)
Consolidation of pipeline acquisition	18		18
Other	2	(1)	1
Balance at June 30, 2011	\$ 735	\$ 54	\$ 789
Balance at December 31, 2011	\$ 757	\$ 150	\$ 907
Noncontrolling interests share of income	139	1	140
Cash distributions	(62)		(62)
Spin-off of SunCoke Energy, Inc.		(151)	(151)
Other	(4)		(4)
Balance at June 30, 2012	\$ 830	\$	\$ 830

**11. Fair Value Measurements.**

The Company's cash equivalents, which amounted to \$1,734 and \$1,805 million at June 30, 2012 and December 31, 2011, respectively, were measured at fair value based on quoted prices in active markets for identical assets (a level one measurement). The additional assets and liabilities that were measured at fair value on a recurring basis were not material to the Company's condensed consolidated balance sheets.

Sunoco's other current assets (other than inventories and deferred income taxes) and current liabilities (other than the current portion of retirement benefit liabilities) are financial instruments and most of these items are recorded at cost in the condensed consolidated balance sheets. The estimated fair values of these financial instruments approximate their carrying amounts. At June 30, 2012 and December 31, 2011, the estimated fair value of Sunoco's long-term debt was \$2,772 and \$3,440 million, respectively, compared to carrying amounts of \$2,548 and \$3,159 million, respectively. Long-term debt that is publicly traded was valued based on quoted market prices while the fair value of other debt issues was estimated by management based upon current interest rates available at the respective balance sheet dates for similar issues. These were determined to be level one and level two fair value measurements within the fair value hierarchy under current accounting guidance.



**Table of Contents**

From time to time, Sunoco uses swaps, options, futures, forwards and other derivative instruments to hedge a variety of price risks. Such derivative instruments are used to achieve ratable pricing of crude oil purchases, to convert certain expected refined product sales to fixed or floating prices, to lock in what Sunoco considers to be acceptable margins for various refined products and to lock in the price of a portion of the Company's electricity and natural gas purchases or sales and transportation costs. Sunoco also uses interest rate swaps from time to time to manage interest costs and minimize the effects of interest rate fluctuation on cash flows associated with its credit facilities. Sunoco does not hold or issue derivative instruments for speculative purposes.

While all of these derivative instruments represent economic hedges, certain of these derivatives are not designated as hedges for accounting purposes. Such derivatives include certain contracts that were entered into and closed during the same accounting period and contracts for which there is not sufficient correlation to the related items being economically hedged.

All of these derivatives are recognized in the condensed consolidated balance sheets at their fair value. Changes in fair value of derivative instruments that have not been designated as hedges for accounting purposes are recognized in earnings as they occur. If the derivative instruments are designated as hedges for accounting purposes, depending on their nature, the effective portions of changes in their fair values are either offset in earnings against the changes in the fair values of the items being hedged or reflected initially as a separate component of shareholders' equity and subsequently recognized in earnings when the hedged items are recognized in earnings. The ineffective portions of changes in the fair values of derivative instruments designated as hedges, if any, are immediately recognized in earnings. The amount of hedge ineffectiveness on derivative contracts during the first six months of 2012 and 2011 was not material.

Sunoco is exposed to credit risk in the event of nonperformance by counterparties on its derivative instruments. Management believes this risk is not significant as the Company has established credit limits with such counterparties which require the settlement of net positions when these credit limits are reached.

The Company had open derivative contracts pertaining to 18.3 million barrels of crude oil and refined products and 2 thousand pounds of soybeans at June 30, 2012, which vary in duration but generally do not extend beyond June 30, 2013.

**Table of Contents**

The following tables set forth the impact of derivatives on the Company's financial performance (in millions of dollars):

	Pretax Gains (Losses) Recognized in Other Comprehensive Income (Loss)		Location of Gains (Losses) Recognized in Earnings	Pretax Gains (Losses) Recognized in Earnings	
	Three Months Ended June 30,			Three Months Ended June 30,	
	2012	2011		2012	2011
Derivatives designated as cash flow hedging instruments:					
Commodity contracts	\$	30			