

Edgar Filing: SUNOCO INC - Form 10-Q

SUNOCO INC
Form 10-Q
August 08, 2001

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, 2001

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)

PENNSYLVANIA

23-1743282

(State or other jurisdiction of incorporation
or organization)

(I.R.S. Employer
Identification No.)

TEN PENN CENTER, 1801 MARKET STREET, PHILADELPHIA, PA 19103-1699

(Address of principal executive offices)
(Zip Code)

(215) 977-3000

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last
report)

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

At June 30, 2001, there were 80,873,251 shares of Common Stock, \$1 par value

Edgar Filing: SUNOCO INC - Form 10-Q

outstanding.

SUNOCO, INC.

INDEX

	Page No.

PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements
	Condensed Consolidated Statements of Income for the Six Months Ended June 30, 2001 and 2000
	1
	Condensed Consolidated Statements of Income for the Three Months Ended June 30, 2001 and 2000
	2
	Condensed Consolidated Balance Sheets at June 30, 2001 and December 31, 2000
	3
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2001 and 2000
	4
	Notes to Condensed Consolidated Financial Statements
	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	16
PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings
	25
Item 4.	Submission of Matters to a Vote of Security Holders
	26
Item 6.	Exhibits and Reports on Form 8-K
	27
SIGNATURE	28

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Sunoco, Inc. and Subsidiaries
(Millions of Dollars and Shares Except Per Share Amounts)

For the Six Months
Ended June 30

Edgar Filing: SUNOCO INC - Form 10-Q

	2001 -----	2000 -----
	(UNAUDITED)	
REVENUES		
Sales and other operating revenue (including consumer excise taxes)	\$7,311	\$6,668
Interest income	5	6
Other income (Note 2)	38	147
	-----	-----
	7,354	6,821
	-----	-----
COSTS AND EXPENSES		
Cost of products sold and operating expenses	5,435	5,121
Consumer excise taxes	839	789
Selling, general and administrative expenses	324	287
Depreciation, depletion and amortization	157	147
Payroll, property and other taxes	51	42
Provision for employee terminations and other matters (Note 3)	20	(7)
Interest cost and debt expense	52	42
Interest capitalized	--	(2)
	-----	-----
	6,878	6,419
	-----	-----
Income from continuing operations before income tax expense	476	402
Income tax expense	174	120
	-----	-----
Income from continuing operations	302	282
Income from discontinued operations (Note 4)	--	11
	-----	-----
NET INCOME	\$ 302	\$ 293
	=====	=====
Earnings per share of common stock (Note 5):		
Basic:		
Income from continuing operations	\$3.62	\$3.19
Net income	\$3.62	\$3.31
Diluted:		
Income from continuing operations	\$3.58	\$3.18
Net income	\$3.58	\$3.30
Weighted average number of shares outstanding:		
Basic	83.4	88.5
Diluted	84.4	88.9
Cash dividends paid per share of common stock	\$.50	\$.50

(See Accompanying Notes)

1

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Sunoco, Inc. and Subsidiaries
(Millions of Dollars and Shares Except Per Share Amounts)

For the Three Months
Ended June 30

Edgar Filing: SUNOCO INC - Form 10-Q

	2001	2000
	-----	-----
	(UNAUDITED)	
REVENUES		
Sales and other operating revenue (including consumer excise taxes)	\$3,795	\$3,518
Interest income	3	4
Other income (Note 2)	24	112
	-----	-----
	3,822	3,634
	-----	-----
COSTS AND EXPENSES		
Cost of products sold and operating expenses	2,763	2,659
Consumer excise taxes	444	418
Selling, general and administrative expenses	165	149
Depreciation, depletion and amortization	80	74
Payroll, property and other taxes	24	20
Provision for employee terminations and other matters (Note 3)	9	(7)
Interest cost and debt expense	27	22
Interest capitalized	--	(1)
	-----	-----
	3,512	3,334
	-----	-----
Income before income tax expense	310	300
Income tax expense	114	85
	-----	-----
NET INCOME	\$ 196	\$ 215
	=====	=====
Net income per share of common stock (Note 5):		
Basic	\$2.38	\$2.45
Diluted	\$2.35	\$2.44
Weighted average number of shares outstanding:		
Basic	82.4	87.8
Diluted	83.5	88.3
Cash dividends paid per share of common stock	\$.25	\$.25

(See Accompanying Notes)

2

CONDENSED CONSOLIDATED BALANCE SHEETS
Sunoco, Inc. and Subsidiaries

	At June 30 2001	At December 31 2000
(Millions of Dollars)		

(UNAUDITED)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 78	\$ 239
Accounts and notes receivable, net	883	890
Inventories:		

Edgar Filing: SUNOCO INC - Form 10-Q

Crude oil	213	210
Petroleum and chemical products	350	171
Materials, supplies and other	116	79
Deferred income taxes	92	94
	-----	-----
Total Current Assets	1,732	1,683
Investments and long-term receivables	195	170
Properties, plants and equipment	7,460	6,747
Less accumulated depreciation, depletion and amortization	3,387	3,357
	-----	-----
Properties, plants and equipment, net	4,073	3,390
Deferred charges and other assets	204	183
	-----	-----
Total Assets	\$6,204	\$5,426
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$1,134	\$1,052
Accrued liabilities	358	377
Current portion of long-term debt	153	2
Taxes payable	274	215
	-----	-----
Total Current Liabilities	1,919	1,646
Long-term debt (Note 7)	1,142	933
Retirement benefit liabilities	412	385
Deferred income taxes	458	250
Other deferred credits and liabilities	468	510
Commitments and contingent liabilities (Note 8)		
Shareholders' equity (Note 9)	1,805	1,702
	-----	-----
Total Liabilities and Shareholders' Equity	\$6,204	\$5,426
	=====	=====

(See Accompanying Notes)

3

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Sunoco, Inc. and Subsidiaries
(Millions of Dollars)

For the Six Months
Ended June 30

	-----	-----
	2001	2000*
	-----	-----
	(UNAUDITED)	

INCREASES (DECREASES) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 302	\$ 293
Adjustments to reconcile net income to net cash provided by operating activities:		

Edgar Filing: SUNOCO INC - Form 10-Q

Income from discontinued operations	--	(11)
Provision for employee terminations and other matters	20	--
Gain on income tax settlement	--	(90)
Depreciation, depletion and amortization	157	147
Deferred income tax expense	103	74
Changes in working capital pertaining to operating activities, net of effect of acquisitions:		
Accounts and notes receivable	174	(74)
Inventories	(84)	(199)
Accounts payable and accrued liabilities	(135)	134
Taxes payable	49	38
Other	(40)	(44)
	-----	-----
Net cash provided by operating activities	546	268
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(145)	(184)
Acquisitions, net of debt assumed of \$163 (Note 10)	(542)	--
Proceeds from divestments	17	24
Other	(15)	(8)
	-----	-----
Net cash used in investing activities	(685)	(168)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from short-term borrowings	--	10
Proceeds from issuance of long-term debt	200	--
Repayments of long-term debt	(1)	--
Cash dividend payments	(42)	(44)
Purchases of common stock for treasury	(192)	(81)
Proceeds from issuance of common stock under management incentive and employee option plans	36	--
Other	(23)	(9)
	-----	-----
Net cash used in financing activities	(22)	(124)
	-----	-----
Net decrease in cash and cash equivalents	(161)	(24)
Cash and cash equivalents at beginning of period	239	87
	-----	-----
Cash and cash equivalents at end of period	\$ 78	\$ 63
	=====	=====

*Reclassified to conform to the 2001 presentation.

(See Accompanying Notes)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. General.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and accounting principles generally accepted in the United States 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

Edgar Filing: SUNOCO INC - Form 10-Q

and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature except for the gain on income tax settlement (Note 2), the provision for employee terminations and other matters (Note 3) and income from discontinued operations (Note 4). Results for the three and six months ended June 30, 2001 are not necessarily indicative of results for the full year 2001.

2. Income Tax Settlement.

In the second quarter of 2000, Sunoco recognized a \$90 million pretax gain in other income (\$79 million after tax) in connection with the settlement of certain federal income tax issues which had been in dispute. Certain additional elements were resolved at the end of 2000 resulting in the recognition of an additional \$30 million pretax gain (\$38 million after tax) in the fourth quarter of 2000. In connection with these settlements, Sunoco received cash proceeds of \$132 million in the fourth quarter of 2000, which consisted of \$47 million for interest and an \$85 million tax refund.

3. Restructuring of Lubricants Operations and Other Matters.

On March 30, 2001, Sunoco completed the sale of its lubricants marketing assets (which include the Kendall(R) motor oil brand, and the customer lists and other related assets for both the Sunoco(R) and Kendall(R) brand labels). During June 2001, Sunoco shut down its Puerto Rico refinery, and in July 2001, closed its lubricants blend plants in Marcus Hook, PA, Tulsa, OK and Richmond, CA. Previously, Sunoco had signed a letter of intent to sell the Tulsa and Richmond blend facilities; however, the parties were unable to come to a final resolution on this arrangement and discussions were terminated.

Sunoco established \$11 and \$17 million accruals (\$7 and \$11 million after tax) in the first and second quarters of 2001, respectively, for approximately 235 employee terminations and other required exit costs and in the 2001 second quarter also recorded a benefit increasing the estimated net realizable value of previously written down lubricants assets held for sale by \$8 million (\$5 million after tax). During the first half of 2001, payments charged against the accruals described above and other accruals previously established for employee terminations throughout the Company totaled \$12 million. At June 30, 2001, the remaining balance in the termination benefit and exit cost accruals totaled \$32 million. Payments against these accruals are expected to continue through 2002. Sunoco may also recognize additional charges for employee terminations and exit costs in connection with the lubricants restructuring, depending upon the outcome of ongoing efforts to divest the Puerto Rico refinery. In the

5

third quarter of 2000, Sunoco recorded a \$123 million after-tax non-cash charge to write-down the lubricants assets held for sale to their estimated values.

Liquidation of related working capital in connection with the disposal of the lubricants assets generated approximately \$50 million of cash in the first half of 2001 and should result in about \$75-\$100 million of additional cash generation in the second half of the year. Liquidation of the remaining inventory could also result in a significant gain.

In the second quarter of 2000, the Company reversed into income the remainder of a previously established loss accrual related to an MTBE purchase commitment in the amount of \$7 million (\$4 million after tax).

Edgar Filing: SUNOCO INC - Form 10-Q

4. Discontinued Operations.

During the first quarter of 2000, Sunoco recorded an \$11 million after-tax favorable adjustment (including a \$7 million tax benefit) to the gain recognized in 1996 in connection with the divestment of the Company's international oil and gas production business. The adjustment resulted from the favorable resolution of certain United Kingdom income tax issues. At the time of the sale, this business was treated as a discontinued operation; therefore, this adjustment was classified similarly in the condensed consolidated statement of income for the six months ended June 30, 2000.

6

5. Earnings Per Share.

The following table sets forth the computation of basic and diluted earnings per share ("EPS") for the six-month and three-month periods ended June 30, 2001 and 2000 (in millions, except per share amounts):

	Six Months Ended June 30		Three Months Ended June 30	
	2001	2000	2001	2000
Income from continuing operations	\$302	\$282	\$196	\$215
Income from discontinued operations	--	11	--	--
Net income	\$302	\$293	\$196	\$215
Weighted average number of common shares outstanding (basic EPS denominator)	83.4	88.5	82.4	87.8
Add effect of dilutive stock incentive awards	1.0	.4	1.1	.5
Weighted average number of shares (diluted EPS denominator)	84.4	88.9	83.5	88.3
Basic EPS:				
Income from continuing operations	\$3.62	\$3.19	\$2.38	\$2.45
Income from discontinued operations	--	.12	--	--
Net Income	\$3.62	\$3.31	\$2.38	\$2.45
Diluted EPS:				
Income from continuing operations	\$3.58	\$3.18	\$2.35	\$2.44
Income from discontinued operations	--	.12	--	--
Net Income	\$3.58	\$3.30	\$2.35	\$2.44

6. Derivatives and Hedging Activity.

Effective January 1, 2001, Sunoco adopted the new derivative accounting prescribed by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". There was no impact on Sunoco's consolidated net income or total shareholders' equity on the date of adoption. A reconciliation of changes in the separate component of shareholders' equity attributable to derivatives and hedging activity during the six months ended June 30, 2001, net of applicable income taxes, is as follows (in millions of dollars):

Accumulated net derivative gains/losses, beginning of period	\$--
Current period hedging gains, net	1
Reclassifications to earnings, net	(1)

Accumulated net derivative gains/losses, end of period	\$-- ===

The amount of hedge ineffectiveness on derivative contracts during the first half of 2001 was not material. Open contracts as of June 30, 2001 vary in duration but do not extend beyond the second quarter of 2002.

7. Long-Term Debt.

On March 29, 2001, the Company issued \$200 million of 6-3/4 percent 10-year bonds through its \$1.5 billion shelf registration statement. While the primary purpose of this borrowing was to repay the Company's \$150 million of 7.95 percent notes maturing in December 2001, the proceeds were used initially to pay down outstanding commercial paper.

8. Commitments and Contingent Liabilities.

Sunoco is subject to numerous federal, state and local laws which regulate the discharge of materials into the environment or that otherwise relate to the protection of the environment. These laws result in liabilities and loss contingencies for remediation at Sunoco's facilities and at third-party or formerly owned sites. The accrued liability for environmental remediation is classified in the condensed consolidated balance sheets as follows (in millions of dollars):

	At June 30 2001	At December 31 2000
	-----	-----
Accrued liabilities	\$ 33	\$ 37
Other deferred credits and liabilities	110	104
	----	----
	\$143	\$141
	=====	=====

Edgar Filing: SUNOCO INC - Form 10-Q

Pretax charges against income for environmental remediation amounted to \$7 million for both the six months ended June 30, 2001 and 2000. Claims for recovery of environmental liabilities that are probable of realization totalled \$6 million at June 30, 2001 and are included in deferred charges and other assets in the condensed consolidated balance sheets.

The U.S. Environmental Protection Agency ("EPA") has issued a series of information requests to several U.S. refiners pursuant to Section 114 of the Clean Air Act as part of an enforcement initiative relating to New Source Review ("NSR"), leak detection and repair ("LDAR"), Benzene Waste NESHAP, and start-up/shut-down malfunctions. Sunoco received Section 114 information requests in 2000 pertaining to its five refineries and its phenol facility in Philadelphia, PA. Sunoco has completed its response to the requests and has provided additional clarification requested by the EPA, which is focusing solely on the refineries at this time. While Sunoco has not been named in any proceeding, it is currently evaluating its position and is engaging in discussions with the EPA concerning these issues.

The use of MTBE continues to be the focus of federal and state government attention. MTBE is the primary oxygenate used by Sunoco and the industry to meet reformulated gasoline requirements under the Clean Air Act. Congress is considering several pieces of legislation that would prohibit, phase-down or regulate the use of MTBE. The EPA is also seeking legislative and/or regulatory changes on the use of oxygenates. Several states, including some in Sunoco's marketing territory, have laws banning the use of MTBE beginning in 2003 and 2004; however, litigation was initiated challenging the legislation in California and New York. An initial court decision on a case brought by a trade association has upheld New York's law banning MTBE. In addition, the EPA rejected California's request for a waiver of the federal oxygenate mandate. Numerous other states continue to explore options concerning MTBE. If MTBE is banned throughout the United States, the effect on Sunoco will depend on the specific regulations,

9

the cost and availability of alternative oxygenates if the minimum oxygenate requirements remain in effect, and the ability of Sunoco to recover its costs in the marketplace. A wholly owned subsidiary of the Company is a one-third partner in Belvieu Environmental Fuels ("BEF"), a joint venture that owns and operates an MTBE production facility in Mont Belvieu, TX. At June 30, 2001, the Company had a \$61 million investment in this operation. The joint venture is currently evaluating alternative uses for this facility in the event MTBE is banned.

Any required cleanup of groundwater aquifers contaminated by MTBE would be driven by cleanup thresholds based on drinking water protection. Though not all groundwater is used for drinking, several states have initiated or proposed more stringent MTBE cleanup thresholds. While actual cleanup costs for specific sites are variable and depend on many factors, more stringent thresholds for MTBE remediation would cause costs at some sites to increase.

Private litigants, purportedly on behalf of classes of private well owners in numerous states, filed class action lawsuits against major petroleum refiners and marketers who sold gasoline containing MTBE, alleging MTBE may have contaminated groundwater. One such class action was filed in New York on behalf of New York well owners. (*LaSusa, et al v. Amerada Hess Corporation, et al*, (formerly styled as *Berisha, et al v. Amerada Hess Corporation, et al*), Case No. 00-CIV-1898-SAS, United States District

Edgar Filing: SUNOCO INC - Form 10-Q

Court, Southern District of New York.) Sunoco is one of sixteen petroleum refiner and marketer defendants in this lawsuit. Sunoco has filed a motion to dismiss the complaint. Discovery has been allowed by the judge and is proceeding. The Judicial Panel on Multidistrict Litigation consolidated this matter with several other federal court MTBE class action cases from other states. Sunoco is not a defendant in the class actions involving the other states. Also before the same judge are two other New York cases in which Sunoco has been named a defendant.

The Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and the Solid Waste Disposal Act as amended by the Resource Conservation and Recovery Act ("RCRA"), and related federal and state laws subject Sunoco to the potential obligation to remove or mitigate the environmental effects of the disposal or release of certain pollutants at Sunoco's facilities and at third-party or formerly owned sites. 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, 2001, Sunoco had been named as a PRP at 50 sites identified or potentially identifiable as "Superfund" sites under federal or state law.

Under various environmental laws, including RCRA, Sunoco has initiated corrective remedial action at its facilities, formerly owned facilities and third-party sites and could be required to undertake similar actions at various other sites.

Total future costs for environmental remediation activities 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 technology available and needed to meet the various existing legal

10

requirements, the nature and extent of future environmental laws, inflation rates and the determination of Sunoco's liability at multi-party sites, if any, in light of the number, participation level and financial viability of other parties.

Many other legal and administrative proceedings are pending against Sunoco. The ultimate outcome of these proceedings and the matters discussed above cannot be ascertained at this time; however, it is reasonably possible that some of them could be resolved unfavorably to Sunoco. Management believes that these matters could have a significant impact on results of operations or cash flows for any future quarter or year. 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, 2001. Furthermore, management does not believe that the overall costs for environmental activities will have a material impact, over an extended period of time, on Sunoco's cash flows or liquidity.

9. Shareholders' Equity.

	At June 30 2001	At December 31 2000
	-----	-----
	(Millions of Dollars)	
Common stock, par value \$1 per share	\$ 134	\$ 132

Edgar Filing: SUNOCO INC - Form 10-Q

Capital in excess of par value	1,437	1,403
Earnings employed in the business	2,209	1,950
	-----	-----
	3,780	3,485
Less common stock held in treasury, at cost	1,975	1,783
	-----	-----
Total	\$1,805	\$1,702
	=====	=====

10. Acquisition of Aristech Chemical Corporation.

Effective January 1, 2001, Sunoco completed the acquisition of Aristech Chemical Corporation ("Aristech"), a wholly owned subsidiary of Mitsubishi Corporation ("Mitsubishi"), for \$509 million in cash and the assumption of \$163 million of debt. The purchase price includes approximately \$110 million for working capital. Contingent payments with a net present value of up to \$167 million (the "earn out") may also be made if realized margins for polypropylene and phenol exceed certain agreed upon thresholds over the next six years. In connection with the transaction, Sunoco also entered into a margin hedge agreement with Mitsubishi whereby Mitsubishi has provided polypropylene margin protection in 2001 of up to \$6.5 million per quarter. Any earn out or margin hedge payments/receipts would be treated as adjustments to the purchase price. In addition, Mitsubishi is responsible during a 25-year indemnification period for up to \$100 million of potential environmental liabilities for the business arising out of or related to the period prior to the acquisition date.

11

In connection with the margin hedge agreement, Sunoco received \$6.5 million from Mitsubishi in the second quarter of 2001 related to Aristech's operations for the first quarter and will receive an additional \$6.5 million in the third quarter of 2001 related to the second quarter's operations. These payments are being reflected as reductions in the purchase price when received.

Included in the purchase are Aristech's five chemical plants located at Neal, WV; Haverhill, OH; Neville Island, PA; and Pasadena and LaPorte, TX and a research center in Pittsburgh, PA. These facilities produce polypropylene, phenol and related derivatives (including bisphenol-A) and plasticizers.

The acquisition has been accounted for as a purchase. The results of operations of Aristech have been included in the consolidated statement of income from the date of acquisition. The purchase price has been tentatively allocated to the assets acquired and liabilities assumed based on their relative estimated fair market values at the acquisition date. The following is a summary of the effects of this transaction on Sunoco's consolidated financial position as of the acquisition date (in millions of dollars):

Allocation of purchase price:

Accounts and notes receivable, net	\$ 161
Inventories	130
Investments and long-term receivables	8
Properties, plants and equipment, net	668
Deferred charges and other assets	20
Accounts payable	(111)
Accrued liabilities	(51)
Current portion of long-term debt	(1)

Edgar Filing: SUNOCO INC - Form 10-Q

Taxes payable	(9)
Long-term debt	(162)
Retirement benefit liabilities	(28)
Deferred income taxes	(110)
Other deferred credits and liabilities	(13)

Cash paid, net of cash received under margin hedge agreement and cash acquired	\$ 502
	=====

The unaudited pro forma sales and other operating revenue of Sunoco for the six months ended June 30, 2000, as if the acquisition of these assets had occurred on January 1, 2000, was \$7,102 million. The unaudited pro forma income from continuing operations for the six months ended June 30, 2000 was \$250 million (\$2.81 per share on a diluted basis). The pro forma information does not purport to be indicative of the results that actually would have been obtained if the combined operations had been conducted during the period presented and is not intended to be a projection of future results. Accordingly, the pro forma results do not reflect any restructuring costs, changes in operating levels, or potential cost savings and other synergies that Sunoco's management expects to realize as a result of the acquisition.

12

11. Business Segment Information.

The following table sets forth certain income statement information concerning Sunoco's business segments for the six-month and three-month periods ended June 30, 2001 and 2000 (in millions of dollars):

Six Months Ended June 30, 2001 -----	Sales and Other Operating Revenue		Profit Contri- bution (Loss) (after tax) -----
	Unaffiliated Customers -----	Inter- segment -----	
Northeast Refining	\$2,043	\$1,525	\$189
Northeast Marketing	2,433	--	39
Chemicals	736	--	(15)
Lubricants*	736	28	33
MidAmerica Marketing & Refining	1,223	--	69
Logistics	25	62	24
Coke	115	--	31
	-----		-----
Consolidated	\$7,311		370
	=====		
Provision for employee terminations and other matters			(13)
Corporate expenses			(12)
Net financing expenses and other			(43)

Net income			\$302
			=====
Six Months Ended June 30, 2000 -----			

Edgar Filing: SUNOCO INC - Form 10-Q

Northeast Refining	\$2,208	\$1,327	\$113
Northeast Marketing	2,118	--	13
Chemicals	370	--	33
Lubricants*	742	3	(14)
MidAmerica Marketing & Refining	1,094	--	43
Logistics	24	63	23
Coke	112	--	27
	-----		----
Consolidated	\$6,668		238
	=====		
Gain on income tax settlement and other matters			83
Corporate expenses			(12)
Net financing expenses and other			(27)
Income from discontinued operations			11

Net income			\$293
			=====

*Includes the Company's Puerto Rico refinery and lubricants blend facilities prior to their shutdown in mid-2001 and the Company's lubricants marketing assets prior to their sale in March 2001 (Note 3).

13

Three Months Ended June 30, 2001 -----	Sales and Other Operating Revenue		Profit Contri- bution (Loss) (after tax)
	Unaffiliated Customers -----	Inter- segment -----	
Northeast Refining	\$1,016	\$830	\$ 87
Northeast Marketing	1,324	--	28
Chemicals	353	--	4
Lubricants*	377	19	21
MidAmerica Marketing & Refining	653	--	60
Logistics	13	32	15
Coke	59	--	15
	-----		----
Consolidated	\$3,795		230
	=====		
Provision for employee terminations and other matters			(6)
Corporate expenses			(6)
Net financing expenses and other			(22)

Net income			\$196
			=====
Three Months Ended June 30, 2000 -----			
Northeast Refining	\$1,120	\$725	\$ 63
Northeast Marketing	1,133	--	4
Chemicals	199	--	20

Edgar Filing: SUNOCO INC - Form 10-Q

Lubricants*	387	2	(2)
MidAmerica Marketing & Refining	608	--	38
Logistics	14	33	14
Coke	57	--	14
	-----		-----
Consolidated	\$3,518		151
	=====		
Gain on income tax settlement and other matters			83
Corporate expenses			(6)
Net financing expenses and other			(13)

Net income			\$215
			=====

 *Includes the Company's Puerto Rico refinery and lubricants blend facilities prior to their shutdown in mid-2001 and the Company's lubricants marketing assets prior to their sale in March 2001 (Note 3).

14

The following table sets forth Sunoco's total assets by business segment at June 30, 2001 (in millions of dollars):

Northeast Refining	\$1,537
Northeast Marketing	1,001
Chemicals	1,628
Lubricants	397
MidAmerica Marketing & Refining	717
Logistics	525
Coke	319

Consolidated	\$6,204*
	=====

 *After elimination of intersegment receivables of \$76 million. Identifiable assets also include Sunoco's \$92 million consolidated deferred income tax asset and \$64 million attributable to corporate activities.

12. New Accounting Standard.

In June 2001, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") was finalized. Sunoco will adopt SFAS No. 142 effective January 1, 2002 when adoption is mandatory. SFAS No. 142 will require the testing of goodwill and indefinite lived intangible assets for impairment rather than amortizing them. Sunoco is currently assessing the impact of adopting SFAS No. 142 on its consolidated financial statements. Sunoco's current level of annual amortization of goodwill and indefinite lived intangible assets, which will be eliminated upon the adoption of SFAS No. 142, is approximately \$5 million after tax.

15

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS - SIX MONTHS

Edgar Filing: SUNOCO INC - Form 10-Q

Earnings Profile of Sunoco Businesses (after tax)

	Six Months Ended June 30		Variance
	2001	2000	
	(Millions of Dollars)		
Northeast Refining	\$189	\$113	\$ 76
Northeast Marketing	39	13	26
Chemicals	(15)	33	(48)
Lubricants*	29	(14)	43
MidAmerica Marketing & Refining	69	43	26
Logistics	24	23	1
Coke	31	27	4
Corporate expenses	(12)	(12)	--
Net financing expenses and other	(43)	(27)	(16)
	-----	-----	-----
	311	199	112
Special items:			
Value Added and Eastern Lubricants*	4	--	4
Employee terminations and other matters	(13)	4	(17)
Income tax settlement	--	79	(79)
Discontinued operations**	--	11	(11)
	-----	-----	-----
Consolidated net income	\$302	\$293	\$ 9
	=====	=====	=====

*In connection with the Company's decision to dispose of its Puerto Rico refinery, lubricants blend facilities and lubricants branded marketing assets (collectively "Value Added and Eastern Lubricants"), commencing with the fourth quarter of 2000, such operations are reported separately as a special item prior to their disposition. Value Added and Eastern Lubricants losses of \$18 million in the first half of 2000 are included in Lubricants (see Note 3 to the condensed consolidated financial statements).

**Represents a favorable adjustment to the gain on divestment of Sunoco's international oil and gas production business which was sold in 1996 (see Note 4 to the condensed consolidated financial statements).

Edgar Filing: SUNOCO INC - Form 10-Q

In the six-month period ended June 30, 2001, Sunoco earned \$302 million, or \$3.58 per share of common stock on a diluted basis, compared to net income of \$293 million, or \$3.30 per share, for the first six months of 2000. Excluding the special items shown separately in the Earnings Profile of Sunoco Businesses, Sunoco earned \$311 million in the first six months of 2001 compared to \$199 million in the first six months of 2000.

Northeast Refining -- Northeast Refining earned \$189 million in the first six months of 2001 versus \$113 million in the first six months of 2000. The improvement was due largely to higher realized margins for gasoline (particularly reformulated and premium grades) and distillates and increased production levels. In addition, high natural gas prices resulted in increased margins for chemical feedstocks, residual fuels, butane, propane and other related products which more than offset increased refinery fuel costs. Realized refining margins averaged \$7.18 per barrel for the six-month period, up \$2.43 per barrel from 2000 levels. Cash expenses, excluding fuel, were \$5 million lower than the first six months of 2000. Despite an extensive amount of planned maintenance activity, refinery production totalled 95 million barrels for the first six months of 2001, an increase of almost one million barrels versus the first six months of 2000.

Northeast Marketing -- Northeast Marketing earned \$39 million in the current six-month period versus \$13 million in the first six months of 2000. The increase in earnings was primarily due to higher retail gasoline margins, which were up 2.7 cents per gallon versus the 2000 first half, and higher retail gasoline sales volumes, which increased nine percent versus the first six months of 2000. Higher non-gasoline income and increased earnings from retail heating oil operations also contributed to the improvement in operating results. Partially offsetting these positive factors was a planned increase in expenses.

Chemicals -- Chemicals had a loss of \$15 million in the first six months of 2001 versus income of \$33 million in the first six months of 2000. The 2001 first half results include an after-tax loss of \$8 million from Aristech's operations, which were acquired effective January 1, 2001. Sunoco's Delaware Valley and Aristech chemical operations were adversely impacted by high operating costs and weak margins, largely as a result of higher natural gas prices. Also contributing to the decline in earnings was lower equity income from Sunoco's joint venture chemical operations. With the acquisition of Aristech, net production increased to almost 2.8 billion pounds for the first six months of 2001 despite being somewhat limited by both scheduled and unscheduled maintenance activity and lower demand.

Lubricants - Lubricants earned \$29 million in the first half of 2001 from the continuing operations of its Tulsa refinery and related process oils business ("Western Lubricants"). Western Lubricants earned \$4 million in the 2000 first half. The improved results were largely due to significantly higher margins for lubricant base oils and fuels produced at the Tulsa refinery, partially offset by higher expenses due to an increase in refinery fuel costs. Production was limited during the first half of 2001 due to a planned maintenance shutdown in the first quarter. Lubricants results for the 2000 first half also included a loss of \$18 million from

17

Sunoco's Value Added and Eastern Lubricants operations. Subsequent to the Company's third quarter 2000 decision to dispose of these assets, these operations are being reported separately as a special item.

MidAmerica Marketing & Refining -- MidAmerica Marketing & Refining earned \$69

Edgar Filing: SUNOCO INC - Form 10-Q

million during the current six-month period, versus \$43 million in the 2000 first half. The increase was largely due to higher average wholesale fuels margins, which were up \$2.90 per barrel from 2000 levels. Refinery production for the first half totalled 27.8 million barrels, an increase of 3.7 million barrels from the first half of 2000 when major planned maintenance work was in progress. Partially offsetting these improvements were significantly higher refinery fuel costs and lower retail gasoline margins.

Coke -- Coke earned \$31 million in the first six months of 2001 versus \$27 million in the first half of 2000. The increased earnings are due to higher tax benefits recognized by Sun Coke and higher coke production at Indiana Harbor.

Net Financing Expenses and Other - Net financing expenses and other activities totalled \$43 million in the first half of 2001 versus \$27 million in the first six months of 2000. The increase is primarily due to Aristech acquisition financing costs.

Employee Terminations and Other Matters - During the first six months of 2001, Sunoco recorded an \$18 million after-tax charge for employee terminations and other required exit costs related to the disposal of its Value Added and Eastern Lubricants operations and recorded a benefit increasing the net realizable value of previously written down lubricants assets held for sale by \$5 million after tax. In the second quarter of 2000, the Company recorded a \$4 million after-tax benefit attributable to the reversal of a loss accrual related to an MTBE purchase commitment. (See Note 3 to the condensed consolidated financial statements.)

Income Tax Settlement - In the second quarter of 2000, Sunoco recorded a \$79 million after-tax gain from the settlement of certain federal income tax issues (see Note 2 to the condensed consolidated financial statements).

Discontinued Operations -- During the first quarter of 2000, Sunoco recorded an \$11 million after-tax favorable adjustment to the gain on divestment of its international oil and gas production business which was sold in 1996 (see Note 4 to the condensed consolidated financial statements).

Analysis of Consolidated Statements of Income

Revenues -- Total revenues were \$7.35 billion in the first half of 2001 compared to \$6.82 billion in the first six months of 2000. The 8 percent increase was primarily as a result of increased chemical sales volumes due to the Aristech acquisition. Also contributing to the increase were higher refined product sales prices and consumer excise taxes. Partially offsetting these increases was the absence of a \$90 million pretax gain recognized in the second quarter of 2000 in connection with the settlement of certain federal income tax issues that had been in dispute.

18

Costs and Expenses -- Total pretax costs and expenses were \$6.88 billion in the first six months of 2001 compared to \$6.42 billion in the first half of 2000. The 7 percent increase was primarily due to the Aristech acquisition, higher refinery fuel costs and higher consumer excise taxes, partially offset by lower crude oil and refined product acquisition costs.

RESULTS OF OPERATIONS - THREE MONTHS

Earnings Profile of Sunoco Businesses (after tax)

Edgar Filing: SUNOCO INC - Form 10-Q

	Three Months Ended June 30		
	2001	2000	Variance
	(Millions of Dollars)		
Northeast Refining	\$ 87	\$ 63	\$ 24
Northeast Marketing	28	4	24
Chemicals	4	20	(16)
Lubricants*	23	(2)	25
MidAmerica Marketing & Refining	60	38	22
Logistics	15	14	1
Coke	15	14	1
Corporate expenses	(6)	(6)	--
Net financing expenses and other	(22)	(13)	(9)
	-----	-----	-----
	204	132	72
Special items:			
Value Added and Eastern Lubricants*	(2)	--	(2)
Employee terminations and other matters	(6)	4	(10)
Income tax settlement	--	79	(79)
	-----	-----	-----
Consolidated net income	\$196	\$215	\$ (19)
	=====	=====	=====

* In connection with the Company's decision to dispose of its Value Added and Eastern Lubricants operations, commencing with the fourth quarter of 2000, such operations are reported separately as a special item prior to their disposition. Value Added and Eastern Lubricants losses of \$10 million in the second quarter of 2000 are included in Lubricants (see Note 3 to the condensed consolidated financial statements).

19

Analysis of Earnings Profile of Sunoco Businesses

In the three-month period ended June 30, 2001, Sunoco earned \$196 million, or \$2.35 per share of common stock on a diluted basis, compared to net income of \$215 million, or \$2.44 per share, for the second quarter of 2000. Excluding the special items shown separately in the Earnings Profile of Sunoco Businesses, Sunoco earned \$204 million in the second quarter of 2001 compared to \$132 million in the second quarter of 2000.

Northeast Refining -- Northeast Refining earned \$87 million in the second quarter of 2001 versus \$63 million in the second quarter of 2000. Despite a lower average 6-3-2-1 crackspread (a market margin derived from refining six

Edgar Filing: SUNOCO INC - Form 10-Q

barrels of crude oil into three barrels of regular gasoline, two barrels of distillate and one barrel of residual fuel), realized refining margins for the quarter averaged \$6.56 per barrel, up \$1.49 per barrel from second quarter 2000 levels. The increase in realized margins and earnings was due largely to higher margins for reformulated and premium gasoline products. Northeast Refining maximized production of reformulated and premium gasoline during the quarter with a record 87 percent of total gasoline production attributable to these products. Partially offsetting the higher margins were higher fuel and utility expenses, mainly as a result of higher natural gas prices.

Northeast Marketing -- Northeast Marketing earned \$28 million in the current quarter versus \$4 million in the second quarter of 2000. The increase in earnings was primarily due to higher retail gasoline margins, which were up 4.4 cents per gallon versus the second quarter of 2000. Also contributing to the improvement were higher retail gasoline sales volumes, which increased over nine percent versus the comparable period a year ago.

Chemicals -- Chemicals earned \$4 million in the second quarter of 2001 versus \$20 million in the second quarter of 2000. The decline in earnings was due to lower results of Sunoco's Delaware Valley chemical operations which lost \$1 million in the quarter versus income of \$16 million in the second quarter of 2000. This decline was due largely to the negative impact of higher natural gas prices on feedstock costs, propylene margins and operating expenses. The Aristech operations acquired earlier this year earned \$1 million in the second quarter. Chemicals joint venture income for the quarter was unchanged at \$4 million.

Lubricants - Western Lubricants earned \$23 million in the second quarter of 2001 versus \$8 million in the 2000 second quarter. The improved results were largely due to significantly higher margins for both fuels and lubricant base oils produced at the Tulsa refinery. Lubricants results for the 2000 second quarter also included a loss of \$10 million from Sunoco's Value Added and Eastern Lubricants operations. Subsequent to the Company's third quarter 2000 decision to dispose of these assets, these operations have been reported separately as a special item.

20

MidAmerica Marketing & Refining -- MidAmerica Marketing & Refining earned a record \$60 million during the current quarter, versus \$38 million in the 2000 second quarter. The increase was largely due to higher average wholesale fuels margins, which were up \$3.42 per barrel from 2000 levels. Refinery operations for the quarter were strong, with inputs to crude units at approximately 144 thousand barrels per day and total refinery production volumes up 1.1 million barrels from the second quarter of 2000. Partially offsetting these improvements were higher refinery fuel costs.

Coke -- Coke earned \$15 million in the second quarter of 2001 versus \$14 million in the second quarter of 2000. The increased earnings are due to higher tax benefits recognized by Sun Coke.

Net Financing Expenses and Other - Net financing expenses and other activities totalled \$22 million in the second quarter of 2001 versus \$13 million in the second quarter of 2000. The increase is largely due to Aristech acquisition financing costs.

Employee Terminations and Other Matters - For a discussion of the provisions for employee terminations and other matters recorded in the second quarters of 2001 and 2000, see Note 3 to the condensed consolidated financial statements.

Income Tax Settlement - For a discussion of the gain on income tax settlement

Edgar Filing: SUNOCO INC - Form 10-Q

recorded in the second quarter of 2000, see Note 2 to the condensed consolidated financial statements.

Analysis of Consolidated Statements of Income

Revenues -- Total revenues were \$3.82 billion in the second quarter of 2001 compared to \$3.63 billion in the second quarter of 2000. The 5 percent increase was primarily as a result of increased chemical sales volumes due to the Aristech acquisition. Also contributing to the increase were higher refined product sales prices and consumer excise taxes. Partially offsetting these increases were lower refined product sales volumes and the absence of the \$90 million pretax gain recognized in the second quarter of 2000 in connection with the settlement of certain federal income tax issues that had been in dispute.

Costs and Expenses -- Total pretax costs and expenses were \$3.51 billion in the second quarter of 2001 compared to \$3.33 billion in the second quarter of 2000. The 5 percent increase was primarily due to the Aristech acquisition, higher refinery fuel costs and higher consumer excise taxes, partially offset by lower crude oil and refined product acquisition costs.

21

FINANCIAL CONDITION

Cash and Working Capital

At June 30, 2001, Sunoco had cash and cash equivalents of \$78 million compared to \$239 million at December 31, 2000, and had a working capital deficit of \$187 million compared to working capital of \$37 million at December 31, 2000. Sunoco's working capital position is considerably stronger than indicated because of the relatively low historical costs assigned under the LIFO method of accounting for most of the inventories reflected in the condensed consolidated balance sheets. The current replacement cost of all such inventories exceeds their carrying value at June 30, 2001 by approximately \$875 million. Inventories valued at LIFO, which consist of crude oil, and petroleum and chemical products, are readily marketable at their current replacement values. Management believes that the current levels of cash and working capital are adequate to support Sunoco's ongoing operations.

Cash Flows and Financial Capacity

In the first six months of 2001, Sunoco's net cash provided by operating activities ("cash generation") was \$546 million compared to \$268 million in the first half of 2000. This \$278 million increase in cash generation was primarily due to an increase in income before special items, a decrease in working capital uses pertaining to operating activities and higher deferred income tax expense.

Management believes that future cash generation will be sufficient to satisfy Sunoco's capital requirements and to pay the current level of cash dividends on Sunoco's common stock. However, from time to time, the Company's short-term cash requirements may exceed its cash generation due to various factors including volatility in crude oil, natural gas, refined product and chemical markets and increases in capital spending and working capital levels. During those periods, the Company may supplement its cash generation with proceeds from financing activities.

The Company has a \$500 million revolving credit agreement ("Agreement") with

Edgar Filing: SUNOCO INC - Form 10-Q

commercial banks that provides access to short-term financing through September 2002. The Company can borrow directly from the participating banks under this Agreement or use it to support the issuance of commercial paper.

During the second quarter of 2001, Sunoco established Sunoco Receivables Corporation, Inc., a wholly owned special purpose subsidiary. On June 29, 2001, this subsidiary entered into a five-year agreement to sell up to a \$200 million undivided interest in a designated pool of certain Sunoco accounts receivable. As of June 30, 2001, no receivables had been sold under this agreement.

The Company has a shelf registration statement which provides the Company with financing flexibility to offer senior and subordinated debt, common and preferred stock, warrants and trust preferred securities. On March 29, 2001, the Company issued \$200 million of 6-3/4 percent 10-year bonds, leaving \$1,300 million available under this shelf registration statement. While the primary purpose of this borrowing was to repay the Company's \$150

22

million of 7.95 percent notes maturing in December 2001, the proceeds were used initially to pay down outstanding commercial paper. The amount and timing of any additional financings will depend upon market conditions and the Company's funding requirements.

The following table sets forth Sunoco's outstanding borrowings (in millions of dollars):

	At June 30 2001	At December 31 2000
	-----	-----
Current portion of long-term debt	\$ 153	\$ 2
Long-term debt	1,142	933
	-----	-----
Total outstanding borrowings	\$1,295	\$935
	=====	=====

Sunoco's ratio of debt (net of cash and cash equivalents) to total capital was 40.3 percent at June 30, 2001 compared to 29.0 percent at December 31, 2000. This increase was due to the Aristech acquisition. In connection with the acquisition, Sunoco issued \$200 million of commercial paper and assumed \$163 million of long-term debt from Aristech. Management believes there is sufficient borrowing capacity available to pursue strategic investment opportunities as they arise. No commitments have been made with respect to any investment opportunity which would require the use of a significant portion of Sunoco's unused financial capacity. In addition, the Company has the option of issuing additional common or preference stock as a means of increasing its equity base; however, there are no current plans to do so.

SHARE REPURCHASES

During the first six months of 2001, the Company repurchased 5,192,711 shares of common stock for \$192 million, which completed the \$200 million share repurchase program initiated in September 2000. In July 2001, the Company received authorization from its Board of Directors to repurchase an additional \$500 million of Company stock in the open market or through privately negotiated transactions from time to time depending on prevailing market conditions.

23

Edgar Filing: SUNOCO INC - Form 10-Q

FORWARD-LOOKING STATEMENTS

Those statements in the foregoing report that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements generally will be accompanied by words such as "anticipate," "believe," "estimate," "expect," "forecast," "intend," "possible," "potential," "predict," "project," or other similar words that convey the uncertainty of future events or outcomes. Although Sunoco believes these forward-looking statements are reasonable, they are based upon a number of assumptions concerning future conditions, any or all of which may ultimately prove to be inaccurate. Forward-looking statements involve a number of risks and uncertainties. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation:

- . Changes in industry-wide refined product and chemical margins;
- . Variation in commodity prices and crude oil supply;
- . Volatility in the marketplace which may affect market supply and demand for Sunoco's products;
- . Increased competition;
- . Changes in the reliability and efficiency of the Company's operating facilities or those of third parties;
- . Changes in the level of operating expenses and hazards common to operating facilities (including equipment malfunction, explosions, fires, oil spills, and the effects of severe weather conditions);
- . Changes in the expected level of environmental remediation spending;
- . Delays related to work on facilities and the issuance of applicable permits;
- . Changes in product specifications;
- . Availability and pricing of oxygenates such as MTBE;
- . Phase-outs or restrictions on the use of MTBE;
- . Political and economic conditions in international markets in which the Company operates;
- . Changes in the availability of debt and equity financing resulting in increased costs or reduced liquidity;
- . Risks related to labor relations;
- . Nonperformance by major customers or suppliers;

24

- . General economic, financial and business conditions which could affect Sunoco's financial condition and results of operations;
- . Changes in applicable statutes and government regulations or their interpretations;
- . Claims of the Company's noncompliance with statutory and regulatory

Edgar Filing: SUNOCO INC - Form 10-Q

requirements; and

- . Changes in the status of litigation to which the Company is a party.

The factors identified above are believed to be important factors (but not necessarily all of the important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement made by Sunoco. Unpredictable or unknown factors not discussed herein could also have material adverse effects on forward-looking statements. All forward-looking statements included in this Form 10-Q are expressly qualified in their entirety by the foregoing cautionary statements. The Company undertakes no obligation to update publicly any forward-looking statement (or its associated cautionary language) whether as a result of new information or future events.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

On June 11, 2001, an agreement in principle was reached with the Pennsylvania Department of Environmental Protection to settle alleged violations of Pennsylvania permit conditions at Sunoco's Marcus Hook refinery. This agreement, if finalized, would require Sunoco to pay a civil penalty in excess of \$100,000.

Many other legal and administrative proceedings are pending against Sunoco. Although the ultimate outcome of these proceedings cannot be ascertained at this time, it is reasonably possible that some of them could be resolved unfavorably to Sunoco. Management of Sunoco believes that any liabilities which may arise from such proceedings would not be material in relation to the consolidated financial position of Sunoco at June 30, 2001.

25

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of the Company's shareholders was held on May 3, 2001. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to the Company's solicitations. At this meeting, the shareholders were requested: (1) to elect a Board of Directors; (2) to approve the Sunoco, Inc. Executive Incentive Plan; (3) to approve the Long-Term Performance Enhancement Plan II ("LTPEP II"); (4) to approve the appointment of independent auditors; and (5) to consider a shareholder proposal regarding the nomination of directors. The following action was taken by the Company's shareholders with respect to each of the above items:

1. Concerning the election of a Board of Directors of the Company, there was a total of 72,162,549 votes cast. The tabulation below sets forth the number of votes cast for or withheld (abstentions) from each director. There were no broker non-votes.

NAME	Number "FOR"	Number "WITHHELD" (ABSTENTIONS)
-----	-----	-----
R. E. Cartledge	69,861,148	2,301,401
R. J. Darnall	69,883,260	2,279,289
J. G. Drosdick	69,880,440	2,282,109
M. J. Evans	69,805,113	2,357,436
U. F. Fairbairn	69,237,035	2,925,514

Edgar Filing: SUNOCO INC - Form 10-Q

T. P. Gerrity	67,030,336	5,132,213
R. B. Greco	67,026,525	5,136,024
J. G. Kaiser	69,882,938	2,279,611
R. D. Kennedy	69,860,246	2,302,303
N. S. Matthews	69,857,764	2,304,785
R. A. Pew	66,978,334	5,184,215
G. J. Ratcliffe	69,882,533	2,280,016
A. B. Trowbridge	69,865,905	2,296,644

2. Concerning the motion to approve the Sunoco, Inc. Executive Incentive Plan, there was a total of 72,162,549 votes cast, with an aggregate of 64,419,462 votes cast in favor of such approval and 7,066,084 against. There were 677,003 withheld (abstentions). There were no broker non-votes.
3. Concerning the motion to approve the LTPEP II, there was a total of 72,162,549 votes cast, with an aggregate of 64,787,010 votes cast in favor of such approval and 6,751,655 against. There were 623,884 withheld (abstentions). There were no broker non-votes.
4. Concerning the motion to appoint Ernst & Young LLP as the Company's independent auditors, there was a total of 72,162,549 votes cast, with an aggregate of 70,849,202 votes cast in favor of such appointment and 960,002 against. There were 353,345 withheld (abstentions). There were no broker non-votes.
5. Concerning the shareholder proposal regarding the nomination of directors, there was a total of 72,162,549 votes cast, with an aggregate of 4,546,979 votes cast in favor of such proposal and

26

57,096,784 against. There were 1,371,099 withheld (abstentions). There were 9,147,687 broker non-votes.

Item 6. Exhibits and Reports on Form 8-K

Exhibits:

- 4 - Third Amendment, dated as of July 6, 2001, to the Rights Agreement between Sunoco, Inc. and EquiServe Trust Company, N.A. dated as of February 1, 1996.
- 10.1 - Sunoco, Inc. Long-Term Performance Enhancement Plan II as of May 3, 2001 (incorporated by reference to Exhibit B to the Company's definitive Proxy Statement for the 2001 Annual Meeting of Shareholders of Sunoco, Inc., filed March 16, 2001, File No. 1-6841).
- 10.2 - Amendment to the Sunoco, Inc. Long-Term Performance Enhancement Plan II, dated July 6, 2001.
- 10.3 - Sunoco, Inc. Executive Incentive Plan, as amended and restated effective as of May 3, 2001 (incorporated by reference to Exhibit A to the Company's definitive Proxy Statement for the 2001 Annual Meeting of Shareholders of Sunoco, Inc., filed March 16, 2001, File No. 1-6841).
- 10.4 - Sunoco, Inc. Retainer Stock Plan for Outside Directors, as amended

Edgar Filing: SUNOCO INC - Form 10-Q

and restated effective as of May 3, 2001.

- 10.5 - Amended Schedule to the Form of Indemnification Agreement, individually entered into between Sunoco, Inc. and certain officers and directors of the Company.
- 12 - Statement re Sunoco, Inc. and Subsidiaries Computation of Ratio of Earnings to Fixed Charges for the Six-Month Period Ended June 30, 2001.

Reports on Form 8-K:

The Company has not filed any reports on Form 8-K during the quarter ended June 30, 2001.

We are pleased to furnish this Form 10-Q to shareholders who request it by writing to:

Sunoco, Inc.
 Investor Relations
 Ten Penn Center
 1801 Market Street
 Philadelphia, PA 19103-1699

27

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUNOCO, INC.

BY /s/ JOSEPH P. KROTT

 Joseph P. Krott
 Comptroller
 (Principal Accounting Officer)

DATE August 7, 2001

28

EXHIBIT INDEX

Exhibit Number	Exhibit
-----	-----
4	Third Amendment, dated as of July 6, 2001, to the Rights Agreement between Sunoco, Inc. and EquiServe Trust Company, N.A. dated as of February 1, 1996.
10.1	Sunoco, Inc. Long-Term Performance Enhancement Plan II as of May 3,

Edgar Filing: SUNOCO INC - Form 10-Q

2001 (incorporated by reference to Exhibit B to the Company's definitive Proxy Statement for the 2001 Annual Meeting of Shareholders of Sunoco, Inc., filed March 16, 2001, File No. 1-6841).

- 10.2 Amendment to the Sunoco, Inc. Long-Term Performance Enhancement Plan II, dated July 6, 2001.
- 10.3 Sunoco, Inc. Executive Incentive Plan, as amended and restated effective as of May 3, 2001 (incorporated by reference to Exhibit A to the Company's definitive Proxy Statement for the 2001 Annual Meeting of Shareholders of Sunoco, Inc., filed March 16, 2001, File No. 1-6841).
- 10.4 Sunoco, Inc. Retainer Stock Plan for Outside Directors, as amended and restated effective as of May 3, 2001.
- 10.5 Amended Schedule to the Form of Indemnification Agreement, individually entered into between Sunoco, Inc. and certain officers and directors of the Company.
- 12 Statement re Sunoco, Inc. and Subsidiaries Computation of Ratio of Earnings to Fixed Charges for the Six-Month Period Ended June 30, 2001.