SUNOCO INC
Form 10-Q
November 02, 2001

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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 X NO ________

At September 30, 2001, there were 78,600,175 shares of Common Stock, $1 par value outstanding.

SUNOCO, INC.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

For the Nine Months

	Ended September 30 2001	2000
	(UNAUDITED)	
REVENUES		
Sales and other operating revenue (including consumer excise taxes)	$ 10,758	$ 10,370
Interest income	7	8
Other income (Notes 2 and 3)	53	184
	10,818	10,562
COSTS AND EXPENSES		
Cost of products sold and operating expenses	8,016	7,998
Consumer excise taxes	1,297	1,222
Selling, general and administrative expenses	483	428
Depreciation, depletion and amortization	237	222
Payroll, property and other taxes	80	63
Provision for write-down of assets and other matters (Note 4)	41	187
Interest cost and debt expense	77	63
Interest capitalized	--	(2)
	10,231	10,181
Income from continuing operations before income tax expense	587	381
Income tax expense (Note 2)	193	124
Income from continuing operations	394	257
Income from discontinued operations (Note 5)	--	11
NET INCOME	$ 394	$ 268
Earnings per share of common stock (Note 6):		
Basic:		
Income from continuing operations	$ 4.79	$ 2.93
Net income	$ 4.79	$ 3.06
Diluted:		
Income from continuing operations	$ 4.74	$ 2.92
Net income	$ 4.74	$ 3.04
Weighted average number of shares outstanding:		
Basic	82.2	87.7
Diluted	83.2	88.1
Cash dividends paid per share of common stock	$ .75	$ .75

(See Accompanying Notes)

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

	For the Three Months Ended September 30	
	2001	2000
	(UNAUDITED)	
REVENUES		
Sales and other operating revenue (including consumer excise taxes)	$ 3,447	$ 3,702
Interest income	2	2
Other income (Notes 2 and 3)	15	37
	3,464	3,741
COSTS AND EXPENSES		
Cost of products sold and operating expenses	2,581	2,877
Consumer excise taxes	458	433
Selling, general and administrative expenses	159	141
Depreciation, depletion and amortization	80	75
Payroll, property and other taxes	29	21
Provision for write-down of assets and other matters (Note 4)	21	194
Interest cost and debt expense	25	21
	3,353	3,762
Income (loss) before income tax expense	111	(21)
Income tax expense (Note 2)	19	4
NET INCOME (LOSS)	$ 92	$ (25)
Net income (loss) per share of common stock (Note 6):		
Basic	$ 1.15	$ (.29)
Diluted	$ 1.14	$ (.29)
Weighted average number of shares outstanding:		
Basic	79.7	86.1
Diluted	81.0	86.1
Cash dividends paid per share of common stock	$ .25	$ .25

(See Accompanying Notes)

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CONDENSED CONSOLIDATED BALANCE SHEETS
Sunoco, Inc. and Subsidiaries

(Millions of Dollars)	At September 30 2001	At December 31 2000
	(UNAUDITED)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 94	$ 239

Accounts and notes receivable, net	921	890
Inventories:		
Crude oil	212	210
Petroleum and chemical products	286	171
Materials, supplies and other	117	79
Deferred income taxes	106	94
Total Current Assets	1,736	1,683
Investments and long-term receivables	179	170
Properties, plants and equipment	7,534	6,747
Less accumulated depreciation, depletion and amortization	3,448	3,357
Properties, plants and equipment, net	4,086	3,390
Deferred charges and other assets	203	183
Total Assets	$6,204	$5,426
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$1,167	$1,052
Accrued liabilities	363	377
Current portion of long-term debt	153	2
Taxes payable	237	215
Total Current Liabilities	1,920	1,646
Long-term debt (Note 8)	1,141	933
Retirement benefit liabilities	408	385
Deferred income taxes	492	250
Other deferred credits and liabilities (Note 9)	450	510
Commitments and contingent liabilities (Note 10)		
Shareholders' equity (Note 11)	1,793	1,702
Total Liabilities and Shareholders' Equity	$6,204	$5,426

(See Accompanying Notes)

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

	For the Nine Months Ended September 30	
	2001	2000*
	(UNAUDITED)	

INCREASES (DECREASES) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 394	$ 268
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	--	(11)
Gain on income tax settlement	--	(90)
Provision for write-down of assets and other matters	41	187
Depreciation, depletion and amortization	237	222
Deferred income tax expense	125	21
Changes in working capital pertaining to operating activities, net of effect of acquisitions:		
Accounts and notes receivable	133	(167)
Inventories	(21)	(111)
Accounts payable and accrued liabilities	(99)	99
Taxes payable	(4)	43
Other	(53)	(80)
Net cash provided by operating activities	753	381
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(218)	(296)
Acquisitions, net of debt assumed of $163 (Note 12)	(552)	--
Proceeds from divestments	26	30
Other	(6)	(15)
Net cash used in investing activities	(750)	(281)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayments of short-term borrowings	--	(150)
Proceeds from issuance of long-term debt	200	--
Repayments of long-term debt	(1)	--
Proceeds from transferred interest in cokemaking operations	--	214
Cash distributions to investors in cokemaking operations	(48)	(18)
Cash dividend payments	(62)	(66)
Purchases of common stock for treasury	(273)	(136)
Proceeds from issuance of common stock under management incentive and employee option plans	37	--
Other	(1)	3
Net cash used in financing activities	(148)	(153)
Net decrease in cash and cash equivalents	(145)	(53)
Cash and cash equivalents at beginning of period	239	87
Cash and cash equivalents at end of period	$ 94	$ 34

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*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 and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature except for the gains on income tax settlements (Note 2), provision for restructuring of lubricants operations and other matters (Note 4) and income from discontinued operations (Note 5). Results for the three and nine months ended September 30, 2001 are not necessarily indicative of results for the full year 2001.

2. Income Tax Settlements.

In the third quarter of 2001, Sunoco recognized a $21 million benefit as a reduction in income tax expense resulting from the settlement of certain federal income tax issues. Sunoco will not receive any cash proceeds in connection with this 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 other federal income tax issues. Certain additional elements of this settlement 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 the 2000 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. Insurance Litigation Settlements.

During 2000, Sunoco entered into settlements which resolved certain insurance claims. In connection with these settlements, Sunoco recognized a $7 million pretax gain ($5 million after tax) in the third quarter of 2000. The claims related to certain environmental matters of Sunoco, including its predecessor companies and subsidiaries, arising from ownership and operation of its businesses.

4. 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, $17 and $4 million accruals ($7, $11 and $2 million after tax) in the first, second and third quarters of 2001, respectively, for approximately 300 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 nine months of 2001, payments charged against the accruals described above and other accruals previously established for employee terminations throughout the Company totalled $20 million. At September 30, 2001, the remaining balance in the termination benefit and exit cost accruals totalled $30 million. Payments against these accruals are expected to continue through 2002.

In September 2001, Sunoco signed a letter of intent to sell its Puerto Rico refinery to Shell Chemical. The sale, which is expected to be completed around year-end 2001, is subject to terms and conditions set forth in the letter of intent, including completion of a due diligence review. Sunoco does not anticipate recognizing a significant gain or loss on this transaction. In the third quarter of 2000, Sunoco recorded a $177 million non-cash charge ($123 million after tax) to write down the lubricants assets held for sale to their estimated values.

The disposal of the lubricants assets generated approximately $100 million of cash in the first nine months of 2001, primarily due to liquidation of related working capital, and should generate about $25 million of additional cash proceeds.

In the third quarter of 2001, Sunoco established a $17 million accrual ($11 million after tax) for environmental remediation activities (Note 10).

During the second and third quarters of 2000, the Company recorded accruals totalling $11 million ($7 million after tax) for employee terminations and related costs and a $6 million provision ($4 million after tax) to write down to fair value certain assets. 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).

5. 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 operations for the nine months ended September 30, 2000.

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6. Earnings Per Share.

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

	Nine Months Ended September 30		Three Months End September 30	
	2001	2000	2001	200
Income (loss) from continuing operations	$394	$257	$ 92	$ (2
Income from discontinued operations	--	11	--	-
Net income (loss)	$394	$268	$ 92	$ (2
Weighted average number of common shares outstanding (basic EPS denominator)	82.2	87.7	79.7	86.
Add effect of dilutive stock incentive awards	1.0	.4	1.3	-
Weighted average number of shares (diluted EPS denominator)	83.2	88.1	81.0	86.
Basic EPS:				
Income (loss) from continuing operations	$4.79	$2.93	$1.15	$(.2
Income from discontinued operations	--	.13	--	-
Net income (loss)	$4.79	$3.06	$1.15	$(.2
Diluted EPS:				
Income (loss) from continuing operations	$4.74	$2.92	$1.14	$(.2
Income from discontinued operations	--	.12	--	-
Net income (loss)	$4.74	$3.04	$1.14	$(.2

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*Since the assumed issuance of common stock related to stock incentive awards would have resulted in a reduction in the loss per share, the diluted per share amounts are equal to the basic per share amounts.

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7. 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 nine months ended September 30, 2001, net of applicable income taxes, is as follows (in millions of dollars):

Accumulated net derivative losses, beginning of period	$ --
Current period net hedging losses	(5)
Reclassifications to earnings, net	--
Accumulated net derivative losses, end of period	$ (5)

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

8. 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.

9. Transferred Interests in Cokemaking Operations.

In the third quarter of 2000, Sunoco transferred an additional interest in its Jewell cokemaking operation to a third-party investor for $214 million in cash. Sunoco did not recognize any gain or loss on this transaction. Third-party investors in Sunoco's Jewell and Indiana Harbor cokemaking operations are now entitled to 98 and 95 percent, respectively, of the cash flows and tax benefits from the respective cokemaking operations until certain cumulative return targets have been met. After these preferential return periods, which are expected to end in 2007 for Jewell and 2002 for Indiana Harbor, the investor in the Jewell operation will be entitled to a minority interest in the cash flows and tax benefits from Jewell amounting to 18 percent, while the investor in the Indiana Harbor operation will be entitled to a variable minority interest in the cash flows and tax benefits from Indiana Harbor ranging from 5 to 23 percent. The balance attributable to the investors' interest in these operations totalled $241 and $316 million at September 30, 2001 and December 31, 2000, respectively, and is reflected in other deferred credits and liabilities in the condensed consolidated balance sheets.

10. Commitments and Contingent Liabilities.

In the third quarter of 2001, Epsilon Products Company, LLC, a polypropylene joint venture in which the Company is a participant, refinanced its outstanding bridge financing with a $120 million five-year term loan and a $40 million revolving credit agreement. Sunoco is contingently liable under an arrangement which guarantees the term loan and borrowings under the revolving credit agreement, which amounted to $32 million at September 30, 2001.

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 September 30 2001	At December 31 2000
Accrued liabilities	$ 35	$ 37
Other deferred credits and liabilities	124	104
	$159	$141

Pretax charges against income for environmental remediation amounted to $29 and $11 million for the nine months ended September 30, 2001 and 2000, respectively. The increase in the first nine months of 2001 was primarily attributable to a $17 million accrual for remediation activities largely associated with more stringent MTBE cleanup requirements (see below). Claims for recovery of environmental liabilities that are probable of realization totalled $7 million at September 30, 2001 and are included in deferred charges and other assets in the condensed consolidated balance sheets.

In December 1999, the U.S. Environmental Protection Agency ("EPA") adopted a rule which phases in limitations on the sulfur content of gasoline beginning in 2004 and, in January 2001, adopted another rule which will require limitations on the allowable sulfur content of diesel fuel beginning in 2006. The diesel rule is currently being challenged in federal court, but it is unclear whether the litigation will have any impact on the implementation of the rule. The United States Supreme Court recently upheld the EPA's ozone and particulate matter standards against similar attacks. The rules include banking and trading credit systems, which could provide refiners flexibility until 2006 for the low-sulfur gasoline and until 2010 for the low-sulfur diesel. These rules are expected to have a significant impact on Sunoco and its operations primarily with respect to the capital and operating expenditures at the Philadelphia, Marcus Hook and Toledo refineries. Most of the capital spending is likely to occur in the 2002-2005 period, while the higher operating costs will be incurred when the low-sulfur fuels are produced. The Company estimates that the total capital outlays to comply with the new gasoline requirements

will be in the range of $200-$250 million. The Company cannot estimate the capital requirements of the new diesel standards at this time. The ultimate impact of the rules may be affected by such factors as technology selection, the effectiveness of the banking and trading credit systems, timing uncertainties created by permitting requirements and construction schedules and any effect on prices created by changes in the level of gasoline and diesel fuel production.

Since the late 1990s, the EPA has undertaken significant enforcement initiatives under authority of the Clean Air Act's New Source Review and Prevention of Significant Deterioration ("NSR/PSD") program. These enforcement initiatives have been targeted at industries that have large manufacturing facilities and that are significant sources of emissions, such as refining, paper and pulp, and electric power generating industries. The basic premise of the enforcement initiative is the EPA's assertion that many of these industrial establishments have modified or expanded their operations over time without complying with NSR/PSD regulations that require permits and new emission controls in connection with any significant facility modifications or expansions that can result in emissions increases above certain thresholds. As part of this on-going NSR/PSD enforcement initiative, the EPA has entered into consent agreements with several refiners that require the refiners to make significant capital expenditures to install emissions control equipment at selected facilities. The cost of the required emissions control equipment could be significant, depending on the size, age and configuration of the refinery. Sunoco received information requests in 2000 in connection with the NSR/PSD enforcement initiative 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. Although Sunoco does not believe that it has violated any NSR/PSD requirements, as part of this initiative, Sunoco could be required to make significant capital expenditures.

The EPA is also reportedly considering limiting the levels of benzene and other toxic substances in gasoline as well as banning MTBE. 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, 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 September 30, 2001, the Company had a $57 million investment in this operation. The joint venture is currently evaluating alternative uses for this facility in the event MTBE is banned.

Cleanup of groundwater aquifers contaminated by MTBE will be driven by thresholds based on drinking water protection. Though not all groundwater is used for drinking, several states have initiated or proposed more stringent MTBE cleanup requirements. In connection with these new requirements, Sunoco increased its accruals for remediation at certain sites during the third quarter of 2001. While actual cleanup costs for specific sites are variable and depend on many factors, expansion of similar MTBE remediation thresholds to additional states or adoption of even more stringent requirements for MTBE remediation would result in further cost increases.

Private litigants, purportedly on behalf of various 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 the groundwater. The Judicial Panel on Multidistrict Litigation consolidated several federal court MTBE class action cases from New York and other states (In re: Methyl Tertiary Butyl Ether ("MTBE") Products Liability Litigation; MDL No. 1358; Master File No. 00 Civ. 1898 (SAS)). MDL 1358 consists of five consolidated cases, and Sunoco was named as a defendant in three of these cases that were filed in New York. In response to motions to dismiss that had been filed, the judge issued an opinion and order that applies to all five cases. The judge dismissed the claims of the class of plaintiffs who have not tested their wells and thus do not know whether there is MTBE contamination (the "non-test class") or who have tested their wells and found no MTBE contamination (the "non-contaminated class"). Because all the class plaintiffs in La Susa, et al. v. Amerada Hess, et al. (one of the three New York cases) were in either the non-test class or the non-contaminated class, the La Susa case was dismissed.

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 September 30, 2001, Sunoco had been named as a PRP at 48 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 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 September 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.

11. Shareholders' Equity.

	At September 30 2001	At December 31 2000
	(Millions of Dollars)	
Common stock, par value $1 per share	$ 134	$ 132
Capital in excess of par value	1,438	1,403
Earnings employed in the business	2,282	1,950
Accumulated other comprehensive loss (Note 7)	(5)	--
Common stock held in treasury, at cost	(2,056)	(1,783)
Total	$ 1,793	$ 1,702

12. 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 $506 million in cash and the assumption of $163 million of debt. The purchase price includes $107 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.

In connection with the margin hedge agreement, Sunoco received $13 million from Mitsubishi in the first nine months of 2001 related to Aristech's operations for the first half and will receive an additional $6.5 million in the fourth quarter of 2001 related to the third 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 condensed consolidated statement of operations 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	$ 157
Inventories	130
Investments and long-term receivables	8
Properties, plants and equipment, net	675
Deferred charges and other assets	14
Accounts payable	(110)
Accrued liabilities	(58)
Current portion of long-term debt	(1)
Taxes payable	(9)
Long-term debt	(162)
Retirement benefit liabilities	(23)
Deferred income taxes	(110)
Other deferred credits and liabilities	(18)
Cash paid, net of cash received under margin hedge agreement and cash acquired	$ 493

The unaudited pro forma sales and other operating revenue of Sunoco for the nine months ended September 30, 2000, as if the acquisition of these assets had occurred on January 1, 2000, was $11,024 million. The unaudited pro forma income from continuing operations for the nine months ended September 30, 2000 was $203 million ($2.30 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.

13. Business Segment Information.

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

	Sales and Other Operating Revenue		
Nine Months Ended September 30, 2001	Unaffiliated Customers	Inter-segment	Profit Contribution (Loss) (after tax)
Northeast Refining	$ 2,941	$ 2,223	$ 194
Northeast Marketing	3,677	--	80
Chemicals	1,069	--	(21)
Lubricants*	1,045	33	46
MidAmerica Marketing & Refining	1,814	--	104
Logistics	39	93	33
Coke	173		45

Consolidated	$ 10,758		481
Income tax settlement			21
Employee terminations and other matters			(26)
Corporate expenses			(19)
Net financing expenses and other			(63)
Net income			$ 394

Nine Months Ended September 30, 2000			
Northeast Refining	$ 3,365	$ 2,104	$ 175
Northeast Marketing	3,331	--	31
Chemicals	560	--	43
Lubricants*	1,154	10	(22)
MidAmerica Marketing & Refining	1,754	--	57
Logistics	39	96	35
Coke	167	--	44
Consolidated	$ 10,370		363
Income tax settlement			79
Insurance litigation settlements			5
Write-down of assets and other matters			(130)
Corporate expenses			(18)
Net financing expenses and other			(42)
Discontinued operations			11
Net income			$ 268

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* Includes the Company's Puerto Rico refinery and lubricants blend facilities and lubricants marketing assets prior to their disposition (Note 4).

Three Months Ended September 30, 2001	Sales and Other Operating Revenue: Unaffiliated Customers	Sales and Other Operating Revenue: Inter-segment	Profit Contribution (Loss) (after tax)
Northeast Refining	$ 898	$ 698	$ 5
Northeast Marketing	1,244	--	41
Chemicals	333	--	(6)
Lubricants*	309	5	13
MidAmerica Marketing & Refining	591	--	35
Logistics	14	31	9
Coke	58	--	14

Consolidated	$ 3,447		111
Income tax settlement			21
Employee terminations and other matters			(13)
Corporate expenses			(7)
Net financing expenses and other			(20)
Net income			$ 92

Three Months Ended September 30, 2000			
Northeast Refining	$ 1,157	$ 777	$ 62
Northeast Marketing	1,213	--	18
Chemicals	190	--	10
Lubricants*	412	7	(8)
MidAmerica Marketing & Refining	660	--	14
Logistics	15	33	12
Coke	55	--	17
Consolidated	$ 3,702		125
Insurance litigation settlements			5
Write-down of assets and other matters			(134)
Corporate expenses			(6)
Net financing expenses and other			(15)
Net loss			$ (25)

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* Includes the Company's Puerto Rico refinery and lubricants blend facilities and lubricants marketing assets prior to their disposition (Note 4).

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

Northeast Refining	$1,595
Northeast Marketing	1,002
Chemicals	1,562
Lubricants	351
MidAmerica Marketing & Refining	696
Logistics	573
Coke	298
Consolidated	$6,204*

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*After elimination of intersegment receivables of $73 million. Identifiable assets also include Sunoco's $106 million consolidated deferred income tax asset and $94 million attributable to corporate activities.

14. New Accounting Standards.

In July 2001, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") was issued. 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.

In August 2001, Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") was issued. This statement significantly changes the method of accruing for costs associated with the retirement of fixed assets which an entity is legally obligated to incur. Sunoco will evaluate the impact and timing of implementing SFAS No. 143, which is required no later than January 1, 2003.

In August 2001, Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") was issued. Among other things, SFAS No. 144 significantly changes the criteria that would have to be met to classify an asset as held-for-sale. This statement supersedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the provisions of Accounting Principles Board Opinion 30 "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" that relate to reporting the effects of a disposal of a segment of a business. Sunoco is currently assessing the impact of adopting SFAS No. 144 on its consolidated financial statements. Implementation of this standard is required no later than January 1, 2002.

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

RESULTS OF OPERATIONS - NINE MONTHS

Earnings Profile of Sunoco Businesses (after tax)

	Nine Months Ended September 30		
	2001	2000	Variance
	(Millions of Dollars)		
Northeast Refining	$ 194	$ 175	$ 19
Northeast Marketing	80	31	49
Chemicals	(21)	43	(64)
Lubricants*	45	(22)	67

MidAmerica Marketing & Refining	104	57	47
Logistics	33	35	(2)
Coke	45	44	1
Corporate expenses	(19)	(18)	(1)
Net financing expenses and other	(63)	(42)	(21)
	398	303	95
Special items:			
Value Added and Eastern Lubricants*	1	--	1
Income tax settlements	21	79	(58)
Insurance litigation settlements	--	5	(5)
Write-down of assets and other matters	(26)	(130)	104
Discontinued operations**	--	11	(11)
Consolidated net income	$ 394	$ 268	$ 126

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*In connection with the Company's decision to dispose of its Puerto Rico refinery, lubricants blend facilities and lubricants branded marketing assets (colectively "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 $29 million in the first nine months of 2000 are included in Lubricants (see Note 4 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 5 to the condensed consolidated financial statements).

Analysis of Earnings Profile of Sunoco Businesses

In the nine-month period ended September 30, 2001, Sunoco earned $394 million, or $4.74 per share of common stock on a diluted basis, compared to net income of $268 million, or $3.04 per share, for the first nine months of 2000. Excluding the special items shown separately in the Earnings Profile of Sunoco Businesses, Sunoco earned $398 million in the first nine months of 2001 compared to $303 million in the first nine months of 2000.

Northeast Refining - Northeast Refining earned $194 million in the first nine months of 2001 versus $175 million in the first nine 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 $5.85 per barrel for the nine-month period, up $.79 per barrel from 2000 levels. Cash expenses, excluding fuel, were $6 million lower than the first nine months of 2000. Despite an extensive amount of planned maintenance activity, refinery production totalled 140.7 million barrels for the first nine months of 2001, an increase of 1.5 million barrels versus the first nine months of 2000.

Northeast Marketing - Northeast Marketing earned $80 million in the current nine-month period versus $31 million in the first nine months of 2000. The increase in earnings was primarily due to higher retail gasoline margins, which were up 3.4 cents per gallon versus the 2000 nine-month period, and higher retail gasoline sales volumes, which increased 10 percent versus the first nine months of 2000, largely due to acquisitions of retail sites from Coastal Corporation. 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.

During the 2001 third quarter, Sunoco completed the acquisition of 65 direct and 163 distributor sites in the southeastern U.S. from Coastal Corporation. Including the February 2001 acquisition of 245 retail sites in the northeastern U.S. from Coastal, Sunoco's Northeast Marketing unit has increased total retail sites by 471 during the first nine months of 2001, including more than 100 convenience-store locations.

Chemicals - Chemicals had a loss of $21 million in the first nine months of 2001 versus income of $43 million in the first nine months of 2000. The 2001 nine-month results include an after-tax loss of $9 million from Aristech's operations, which were acquired effective January 1, 2001. Sunoco's Delaware Valley and Aristech chemical operations were adversely impacted by reduced product demand which resulted in lower production volumes and margins for most chemical products. 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 4.1 billion pounds for the first nine months of 2001 despite being somewhat limited by both scheduled and unscheduled maintenance activity and lower demand.

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Lubricants - Lubricants earned $45 million in the first nine months of 2001 from the continuing operations of its Tulsa refinery and related process oils business ("Western Lubricants"). Western Lubricants earned $7 million in the 2000 nine-month period. 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 nine months of 2001 due to a planned maintenance shutdown in the first quarter. Lubricants results for the first nine months of 2000 also included a loss of $29 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 are being reported separately as a special item.

MidAmerica Marketing & Refining - MidAmerica Marketing & Refining earned $104 million during the current nine-month period versus $57 million in the 2000 first nine months. The increase was largely due to higher average wholesale fuels margins, which were up $3.61 per barrel from 2000 levels. Refinery production for the first nine months totalled 41.6 million barrels, an increase of 2.4 million barrels from the first nine months of 2000 when major planned maintenance work was in progress. Partially offsetting these improvements were significantly higher refinery fuel costs and lower margins for petrochemical and retail gasoline products.

Coke - Coke earned $45 million in the first nine months of 2001 versus $44 million in the first nine months of 2000. The increased earnings are due to higher tax benefits recognized by Sun Coke and higher coke production at Indiana Harbor, partially offset by lower coke margins at Jewell.

Corporate Expenses - Corporate administrative expenses were $19 million during the current nine-month period versus $18 million in the 2000 first nine months. The increase was due to the recognition of a $1 million contribution by Sunoco to relief efforts associated with the terrorist attacks of September 11, 2001.

Net Financing Expenses and Other - Net financing expenses and other activities totalled $63 million in the first nine months of 2001 versus $42 million in the first nine months of 2000. The increase is largely due to Aristech acquisition financing costs.

Income Tax Settlements - In the third quarter of 2001 and second quarter of 2000, Sunoco recorded after-tax gains from the settlement of certain federal income tax issues totaling $21 and $79 million, respectively (see Note 2 to the condensed consolidated financial statements).

Insurance Litigation Settlements - In the third quarter of 2000, Sunoco recorded a $5 million after-tax gain in connection with settlements of insurance claims related to certain environmental matters (see Note 3 to the condensed consolidated financial statements).

Write-Down of Assets and Other Matters - During the first nine months of 2001, Sunoco recorded a $20 million after-tax charge for employee terminations and other required exit costs related to the disposal of its Value Added and Eastern Lubricants operations, an $11 million after-tax accrual for environmental remediation activities and a benefit increasing the net realizable value of previously written down lubricants assets held for sale by $5 million after tax. During the first nine months of 2000, Sunoco recorded a $123 million after-tax provision to write down its lubricants assets held for sale to their estimated values. During this

period, Sunoco also recorded a $7 million after-tax charge for employee terminations, a $4 million after-tax benefit attributable to the reversal of a loss accrual related to an MTBE purchase commitment and a $4 million after-tax provision to write down to fair value certain assets. (See Notes 4 and 10 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 5 to the condensed consolidated financial statements).

Analysis of Condensed Consolidated Statements of Operations

Revenues -- Total revenues were $10.82 billion in the first nine months of 2001 compared to $10.56 billion in the first nine months of 2000. The 2 percent increase was primarily as a result of increased chemical sales volumes due to the Aristech acquisition. Also contributing to the increase were higher consumer excise taxes. Partially offsetting these increases were lower refined product prices and sales volumes and the absence of the income tax settlement gain recognized in 2000.

Costs and Expenses -- Total pretax costs and expenses were $10.23 billion in the first nine months of 2001 compared to $10.18 billion in the first nine months of 2000. The 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 and a decrease in the provision for write-down of assets and other matters.

RESULTS OF OPERATIONS - THREE MONTHS

Earnings Profile of Sunoco Businesses (after tax)

	Three Months Ended September 30 2001	Three Months Ended September 30 2000	Variance
	(Millions of Dollars)		
Northeast Refining	$ 5	$ 62	$(57)
Northeast Marketing	41	18	23
Chemicals	(6)	10	(16)
Lubricants*	16	(8)	24
MidAmerica Marketing & Refining	35	14	21
Logistics	9	12	(3)
Coke	14	17	(3)
Corporate expenses	(7)	(6)	(1)
Net financing expenses and other	(20)	(15)	(5)
	87	104	(17)
Special items:			
Value Added and Eastern Lubricants*	(3)	--	(3)
Income tax settlement	21	--	21
Insurance litigation settlements	--	5	(5)
Write-down of assets and other matters	(13)	(134)	121
Consolidated net income (loss)	$ 92	$ (25)	$117

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* Inconnection 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 $11 million in the third quarter of 2000 are included in Lubricants (see Note 4 to the condensed consolidated financial statements).

Analysis of Earnings Profile of Sunoco Businesses

In the three-month period ended September 30, 2001, Sunoco earned $92 million, or $1.14 per share of common stock on a diluted basis, compared to a net loss of $25 million, or $.29 per share, for the third quarter of 2000. Excluding the special items shown separately in the Earnings Profile of Sunoco Businesses, Sunoco earned $87 million in the third quarter of 2001 compared to $104 million in the third quarter of 2000.

Northeast Refining - Northeast Refining earned $5 million in the third quarter of 2001 versus $62 million in the third quarter of 2000. The decline in earnings was due primarily to significantly lower wholesale fuels margins, particularly early in the quarter when industry product inventories were consistently rising. Realized margins for the quarter averaged $3.28 per barrel, down $2.41 per barrel versus third quarter 2000 levels and well below seasonal norms. Northeast Refining accelerated certain maintenance work planned for later this year and early 2002 into the July/August timeframe, limiting input to crude units to 90 percent of rated capacity during the quarter. With this work now completed, Northeast Refining is positioned to maximize production levels through the upcoming fall and winter seasons. Partially offsetting the decline in margins were lower fuel and utility costs, mainly as a result of lower natural gas prices.

Northeast Marketing - Northeast Marketing earned a record $41 million in the current quarter versus $18 million in the third quarter of 2000. The increase in earnings was primarily due to higher retail gasoline margins, which were up 4.5 cents per gallon versus the third quarter of 2000. Also contributing to the improvement were higher retail gasoline sales volumes, which increased over 10 percent versus the comparable period a year ago, largely due to acquisitions of retail sites from Coastal Corporation. Partially offsetting the volume growth were higher associated expenses.

Chemicals - Chemicals had a loss of $6 million in the third quarter of 2001 versus income of $10 million in the third quarter of 2000. Sunoco's Delaware Valley chemical operations lost $3 million in the current quarter versus income of $4 million in the third quarter of 2000. This decline was due largely to the negative impact of reduced product demand which resulted in lower production volumes and margins for most chemical products. The Aristech operations acquired earlier this year lost $1 million in the third quarter. Rising feedstock costs, specifically for cumene and propylene, put added pressure on margins in the quarter. Chemicals joint venture operations had a loss of $2 million for the quarter compared to income of $6 million in last year's third quarter. This decline was due to reduced earnings from MTBE production related to Sunoco's interest in Belvieu Environmental Fuels and lower results in the Epsilon Products polypropylene joint venture.

Lubricants - Western Lubricants earned $16 million in the third quarter of 2001 versus $3 million in the 2000 third 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 third quarter also included a loss of $11 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.

MidAmerica Marketing & Refining - MidAmerica Marketing & Refining earned $35 million during the current quarter versus $14 million in the 2000 third quarter. The increase was largely due to higher average wholesale fuels margins, which were up $4.74 per barrel from 2000 levels, reflecting strong seasonal demand and the impact of refinery disruptions in the region. Partially offsetting this improvement were much lower margins for petrochemical and retail gasoline products.

Logistics - Logistics earned $9 million in the third quarter of 2001 versus $12 million for the year-ago period. The decrease in earnings was due primarily to lower margins associated with crude oil acquisition and marketing activities and the adverse impact of an ad valorem tax adjustment recorded in the third quarter of 2001.

Coke - Coke earned $14 million in the third quarter of 2001 versus $17 million in the third quarter of 2000. The decreased earnings are due to slightly lower tax benefits and coke production levels versus last year's third quarter.

Corporate Expenses - Corporate administrative expenses were $7 million for the third quarter of 2001 versus $6 million for the year-ago period. The increase was due to the recognition of a $1 million contribution by Sunoco to relief efforts associated with the terrorist attacks of September 11, 2001.

Net Financing Expenses and Other - Net financing expenses and other activities totalled $20 million in the third quarter of 2001 versus $15 million in the third quarter of 2000. The increase is largely due to Aristech acquisition financing costs.

Income Tax Settlement - For a discussion of the gain on income tax settlement recorded in the third quarter of 2001, see Note 2 to the condensed consolidated financial statements.

Insurance Litigation Settlements - For a discussion of the gain on insurance litigation settlements recognized in the third quarter of 2000, see Note 3 to the condensed consolidated financial statements.

Write-Down of Assets and Other Matters - For a discussion of the provision for write-down of assets and other matters recorded in the first nine months of 2001 and 2000, see Notes 4 and 10 to the condensed consolidated financial statements.

Analysis of Condensed Consolidated Statements of Operations

Revenues -- Total revenues were $3.46 billion in the third quarter of 2001 compared to $3.74 billion in the third quarter of 2000. The 7 percent decrease was primarily as a result of lower refined product prices and sales volumes. Partially offsetting these decreases were increased chemical sales volumes due to the Aristech acquisition and higher consumer excise taxes.

Costs and Expenses -- Total pretax costs and expenses were $3.35 billion in the third quarter of 2001 compared to $3.76 billion in the third quarter of 2000. The 11 percent decrease was primarily due to lower crude oil and refined product acquisition costs and a decrease in the provision for write-down of assets and other matters. Partially offsetting these decreases were higher costs as a result of the Aristech acquisition and higher consumer excise taxes.

FINANCIAL CONDITION

Cash and Working Capital

At September 30, 2001, Sunoco had cash and cash equivalents of $94 million compared to $239 million at December 31, 2000, and had a working capital deficit of $184 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 September 30, 2001 by approximately $775 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 nine months of 2001, Sunoco's net cash provided by operating activities ("cash generation") was $753 million compared to $381 million in the first nine months of 2000. This $372 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. The decrease in working capital uses is largely attributable to the liquidation of working capital in connection with the disposal of the lubricants assets.

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.

On October 15, 2001, Sunoco formed Sunoco Logistics Partners L.P. to ultimately acquire a substantial portion of the wholly owned logistics operations of the Company. On October 22, 2001, Sunoco Logistics Partners L.P. filed a registration statement on Form S-1 relating to an initial public offering of limited partnership units of Sunoco Logistics Partners L.P., which the Company expects to complete by early 2002, subject to acceptable market conditions and other considerations.

The Company has a $500 million revolving credit agreement ("Agreement") with 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 September 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 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 September 30 2001	At December 31 2000
Current portion of long-term debt	$ 153	$ 2
Long-term debt	1,141	933
Total outstanding borrowings	$1,294	$ 935

Sunoco's ratio of debt (net of cash and cash equivalents) to total capital was 40.1 percent at September 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.

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SHARE REPURCHASES

During the first nine months of 2001, the Company repurchased 7,496,411 shares of common stock for $273 million and in October 2001 repurchased an additional 1,925,500 shares for $72 million. At October 31, 2001, the Company had a remaining authorization from its Board of Directors to purchase up to $348 million of Company common stock in the open market or through privately negotiated transactions from time to time depending on prevailing market conditions.

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;
- 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 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

Many 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 September 30, 2001.

Item 6. Exhibits and Reports on Form 8-K

Exhibits:

12 - Statement re Sunoco, Inc. and Subsidiaries Computation of Ratio of Earnings to Fixed Charges for the Nine-Month Period Ended September 30, 2001.

Reports on Form 8-K:

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

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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

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 November 1, 2001

EXHIBIT INDEX

Exhibit Number	Exhibit
12	Statement re Sunoco, Inc. and Subsidiaries Computation of Ratio of Earnings to Fixed Charges for the Nine-Month Period Ended September 30, 2001.