



# **FORM 10-Q**

## **SUNOCO INC - SUN**

**Filed: May 01, 2008 (period: March 31, 2008)**

Quarterly report which provides a continuing view of a company's financial position

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**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 March 31, 2008

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**  
(State or other jurisdiction of incorporation  
or organization)

**23-1743282**  
(I.R.S. Employer  
Identification No.)

**1735 MARKET STREET, SUITE LL, PHILADELPHIA, PA 19103-7583**

(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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (do not check if a smaller reporting  
company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

At March 31, 2008, there were 116,854,463 shares of Common Stock, \$1 par value outstanding.

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PART I.  
FINANCIAL INFORMATION

**Item 1. Financial Statements (Unaudited)**

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Sunoco, Inc. and Subsidiaries

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

	<b>For the Three Months Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
	<b>(UNAUDITED)</b>	
<b>REVENUES</b>		
Sales and other operating revenue (including consumer excise taxes)	\$ 12,796	\$ 9,135
Interest income	9	5
Gain related to issuance of Sunoco Logistics Partners L.P. limited partnership units (Note 2)	—	151
Other income, net (Note 2)	<u>8</u>	<u>14</u>
	<u>12,813</u>	<u>9,305</u>
<b>COSTS AND EXPENSES</b>		
Cost of products sold and operating expenses	11,935	7,988
Consumer excise taxes	590	641
Selling, general and administrative expenses (Note 2)	198	221
Depreciation, depletion and amortization	128	115
Payroll, property and other taxes	42	37
Interest cost and debt expense	28	35
Interest capitalized	<u>(9)</u>	<u>(9)</u>
	<u>12,912</u>	<u>9,028</u>
Income (loss) before income tax expense (benefit)	(99)	277
Income tax expense (benefit)	<u>(40)</u>	<u>102</u>
<b>NET INCOME (LOSS)</b>	<u>\$ (59)</u>	<u>\$ 175</u>
Net income (loss) per share of common stock:		
Basic	\$ (.50)	\$ 1.44
Diluted	\$ (.50)	\$ 1.44
Weighted-average number of shares outstanding (Notes 3 and 6):		
Basic	117.2	121.4
Diluted	117.2	121.7
Cash dividends paid per share of common stock (Note 6)	\$ .275	\$ .25

(See Accompanying Notes)

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## CONDENSED CONSOLIDATED BALANCE SHEETS

Sunoco, Inc. and Subsidiaries

(Millions of Dollars)

	At March 31 2008 <u>(UNAUDITED)</u>	At December 31 2007
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 347	\$ 648
Accounts and notes receivable, net	3,406	2,710
Inventories:		
Crude oil	378	341
Petroleum and chemical products	542	647
Materials, supplies and other	162	162
Deferred income taxes	<u>132</u>	<u>130</u>
Total Current Assets	4,967	4,638
Investments and long-term receivables	173	175
Properties, plants and equipment	11,669	11,466
Less accumulated depreciation, depletion and amortization	<u>4,500</u>	<u>4,427</u>
Properties, plants and equipment, net	7,169	7,039
Deferred charges and other assets	<u>529</u>	<u>574</u>
Total Assets	<u>\$ 12,838</u>	<u>\$ 12,426</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 5,519	\$ 4,812
Accrued liabilities (Note 4)	606	631
Current portion of long-term debt	3	4
Taxes payable	<u>88</u>	<u>193</u>
Total Current Liabilities	6,216	5,640
Long-term debt	1,683	1,724
Retirement benefit liabilities (Note 5)	526	525
Deferred income taxes	1,084	1,027
Other deferred credits and liabilities (Note 4)	533	538
Commitments and contingent liabilities (Note 4)		
Minority interests (Note 2)	429	439
Shareholders' equity (Note 6)	<u>2,367</u>	<u>2,533</u>
Total Liabilities and Shareholders' Equity	<u>\$ 12,838</u>	<u>\$ 12,426</u>

(See Accompanying Notes)

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Sunoco, Inc. and Subsidiaries  
(Millions of Dollars)

	<b>For the Three Months Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
	<b>(UNAUDITED)</b>	
<b>INCREASES (DECREASES) IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (59)	\$ 175
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain related to issuance of Sunoco Logistics Partners L.P. limited partnership units (Note 2)	—	(151)
Depreciation, depletion and amortization	128	115
Deferred income tax expense	49	92
Payments less than expense for retirement plans	8	11
Changes in working capital pertaining to operating activities:		
Accounts and notes receivable	(696)	(46)
Inventories	68	238
Accounts payable and accrued liabilities	662	(177)
Taxes payable	(105)	(37)
Other	14	17
Net cash provided by operating activities	<u>69</u>	<u>237</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(257)	(332)
Proceeds from divestments	3	6
Other	40	(3)
Net cash used in investing activities	<u>(214)</u>	<u>(329)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from short-term borrowings	—	55
Net proceeds from issuance of long-term debt	5	48
Repayments of long-term debt	(47)	(4)
Cash distributions to investors in cokemaking operations	(17)	(7)
Cash distributions to investors in Sunoco Logistics Partners L.P.	(14)	(13)
Cash dividend payments	(32)	(30)
Purchases of common stock for treasury	(49)	—
Proceeds from issuance of common stock under management incentive plans	—	4
Other	(2)	(2)
Net cash provided by (used in) financing activities	<u>(156)</u>	<u>51</u>
Net decrease in cash and cash equivalents	(301)	(41)
Cash and cash equivalents at beginning of period	648	263
Cash and cash equivalents at end of period	<u>\$ 347</u>	<u>\$ 222</u>

(See Accompanying Notes)

1. General.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and U.S. generally accepted accounting principles for interim financial reporting. They do not include all disclosures normally made in financial statements contained in Form 10-K. In management's opinion, all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for the periods shown have been made. All such adjustments are of a normal recurring nature, except for the gain related to Sunoco Logistics Partners L.P.'s prior issuance of limited partnership units (Note 2). Results for the three months ended March 31, 2008 are not necessarily indicative of results for the full-year 2008.

2. Minority Interests.

Cokemaking Operations

Sunoco received a total of \$415 million in exchange for interests in its Indiana Harbor cokemaking operations in two separate transactions in 1998 and 2002. Sunoco did not recognize any gain as of the dates of these transactions because the third-party investors were entitled to a preferential return on their respective investments. The returns of the investors were equal to 98 percent of the cash flows and tax benefits from such cokemaking operations during the preferential return period, which continued until the fourth quarter of 2007 at which time the investor entitled to the preferential return recovered its investment and achieved a cumulative annual after-tax return of approximately 10 percent. After payment of the preferential return, the investors are now entitled to a minority interest in the related net income amounting to 34 percent which declines to 10 percent by 2038.

The following table sets forth the minority interest balances and the changes in these balances attributable to the third-party investors' interests in cokemaking operations (in millions of dollars):

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
Balance at beginning of year	\$ 83	\$ 102
Nonconventional fuel credit and other tax benefits	—	(10)
Preferential return	—	6
Minority interest share of income	4	—
Cash distributions to third-party investors	(17)	(7)
Balance at end of period	<u>\$ 70</u>	<u>\$ 91</u>

The nonconventional fuel credit and other tax benefits that were allocated to third-party investors prior to the completion of the preferential return period were included as income in the Coke segment, while the investors' preferential return was recorded as expense in the Corporate and Other segment. The net of these two amounts represented a noncash change in minority interests in cokemaking operations, which was recognized in other income, net, in the condensed consolidated statements of operations. Upon completion of the preferential return period, the third-party investor's share of net income generated by the Company's cokemaking operations is recorded as a noncash increase in minority interest expense in the Coke segment and is included in selling, general and administrative expenses in the condensed consolidated statements of operations.

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The Company indemnifies third-party investors (including a former investor in Sunoco's Jewell cokemaking operations) for certain tax benefits that were available to them during the preferential return period in the event the Internal Revenue Service disallows the tax deductions and benefits allocated to the third parties. These tax indemnifications are in effect until the applicable tax returns are no longer subject to Internal Revenue Service review. Although the Company believes the possibility is remote that it will be required to do so, at March 31, 2008, the maximum potential payment under these tax indemnifications would have been approximately \$270 million.

### Logistics Operations

Sunoco's interest in Sunoco Logistics Partners L.P. (the "Partnership"), including its 2 percent general partnership interest, is 43 percent. Sunoco's general partnership interest also includes incentive distribution rights which provide Sunoco, as the general partner, up to 50 percent of the Partnership's incremental cash flow. The accounts of the Partnership are included in Sunoco's condensed consolidated financial statements.

The Partnership's prior issuance of common units to the public resulted in an increase in the value of Sunoco's proportionate share of the Partnership's equity as the issuance price per unit exceeded Sunoco's carrying amount per unit at the time of issuance. Prior to the conversion of Sunoco's remaining subordinated units to common units in February 2007, the resultant gain to Sunoco on the prior issuance of common units to the public had been deferred as a component of minority interest in the Company's condensed consolidated balance sheets as the common units issued did not represent residual interests in the Partnership due to Sunoco's ownership of the subordinated units. The deferred gain, which amounted to \$151 million (\$90 million after tax), was recognized in income in the first quarter of 2007 when Sunoco's remaining subordinated units converted to common units at which time the common units became residual interests.

The following table sets forth the minority interest balance and the changes to this balance attributable to the third-party investors' interests in Sunoco Logistics Partners L.P. (in millions of dollars):

	Three Months Ended March 31	
	2008	2007
Balance at beginning of year	\$ 356	\$ 503
Gain recognized in income related to prior issuance of the Partnership's limited partnership units	—	(151)
Minority interest share of income*	17	10
Cash distributions to third-party investors**	(14)	(13)
Balance at end of period	<u>\$ 359</u>	<u>\$ 349</u>

\* Included in selling, general and administrative expenses in the condensed consolidated statements of operations.

\*\* During 2007 and the first three months of 2008, the Partnership increased its quarterly cash distribution per unit from \$.8125 to \$.895.

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### 3. Earnings Per Share Data.

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

	Three Months Ended	
	March 31	
	2008*	2007
Weighted-average number of common shares outstanding - basic	117.2	121.4
Add effect of dilutive stock incentive awards	—	.3
Weighted-average number of shares - diluted	<u>117.2</u>	<u>121.7</u>

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

### 4. Commitments and Contingent Liabilities.

#### Commitments

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

#### Environmental Remediation Activities

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

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

	At March 31 2008	At December 31 2007
Accrued liabilities	\$ 36	\$ 39
Other deferred credits and liabilities	84	83
	<u>\$ 120</u>	<u>\$ 122</u>

The following table summarizes the changes in the accrued liability for environmental remediation activities by category (in millions of dollars):

	Refineries	Retail Sites	Chemicals Facilities	Pipelines and Terminals	Hazardous Waste Sites	Other	Total
Balance at January 1, 2007	\$ 34	\$ 69	\$ 3	\$ 12	\$ 2	\$ 1	\$ 121
Accruals	—	5	—	1	1	—	7
Payments	(3)	(4)	—	(1)	—	—	(8)
Balance at March 31, 2007	<u>\$ 31</u>	<u>\$ 70</u>	<u>\$ 3</u>	<u>\$ 12</u>	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 120</u>
Balance at January 1, 2008	\$ 35	\$ 67	\$ 4	\$ 12	\$ 3	\$ 1	\$ 122
Accruals	2	4	—	—	1	—	7
Payments	(3)	(5)	—	—	(1)	—	(9)
Balance at March 31, 2008	<u>\$ 34</u>	<u>\$ 66</u>	<u>\$ 4</u>	<u>\$ 12</u>	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 120</u>

Sunoco's accruals for environmental remediation activities reflect management's estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are both probable and reasonably estimable. Engineering studies, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated accruals for environmental remediation activities. Losses attributable to unasserted claims are also reflected in the accruals to the extent they are probable of occurrence and reasonably estimable.

Total future costs for the environmental remediation activities identified above will depend upon, among other things, the identification of any additional sites, the determination of the extent of the contamination at each site, the timing and nature of required remedial actions, the nature of operations at each site, the technology available and needed to meet the various existing legal requirements, the nature and terms of cost-sharing arrangements with other potentially responsible parties, the availability of insurance coverage, the nature and extent of future environmental laws and regulations, inflation rates and the determination of Sunoco's liability at the sites, if any, in light of the number, participation level and financial viability of the other parties. Management believes it is reasonably possible (i.e., less than probable but greater than remote) that additional environmental remediation losses will be incurred. At March 31, 2008, the aggregate of the estimated maximum additional reasonably possible losses, which relate to numerous individual sites, totaled approximately \$105 million. However, the Company believes it is very unlikely that it will realize the maximum reasonably possible loss at every site. Furthermore, the recognition of additional losses, if and when they were to occur, would likely extend over many years and, therefore, likely would not have a material impact on the Company's financial position.

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

Many of Sunoco’s current terminals are being addressed with the above containment/remediation strategy. At some smaller or less impacted facilities and some previously divested terminals, the focus is on remediating discrete interior areas to attain regulatory closure.

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

The accrued liability for hazardous waste sites is attributable to potential obligations to remove or mitigate the environmental effects of the disposal or release of certain pollutants at third-party sites pursuant to the Comprehensive Environmental Response Compensation and Liability Act (“CERCLA”) (which relates to releases and remediation of hazardous substances) and similar state laws. Under CERCLA, Sunoco is potentially subject to joint and several liability for the costs of remediation at sites at which it has been identified as a “potentially responsible party” (“PRP”). As of March 31, 2008, Sunoco had been named as a PRP at 34 sites identified or potentially identifiable as “Superfund” sites under federal and state law. The Company is usually one of a number of companies identified as a PRP at a site. Sunoco has reviewed the nature and extent of its involvement at each site and other relevant circumstances and, based upon the other parties involved or Sunoco’s level of participation therein, believes that its potential liability associated with such sites will not be significant.

Management believes that none of the current remediation locations, which are in various stages of ongoing remediation, is individually material to Sunoco as its largest accrual for any one Superfund site, operable unit or remediation area was less than \$8 million at March 31, 2008. As a result, Sunoco’s exposure to adverse developments with respect to any individual site is not expected to be material. However, if changes in environmental laws or regulations occur, such changes could impact multiple Sunoco facilities, formerly owned facilities and third-party sites at the same time. As a result, from time to time, significant charges against income for environmental remediation may occur.

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The Company maintains insurance programs that cover certain of its existing or potential environmental liabilities, which programs vary by year, type and extent of coverage. For underground storage tank remediations, the Company can also seek reimbursement through various state funds of certain remediation costs above a deductible amount. For certain acquired properties, the Company has entered into arrangements with the sellers or others that allocate environmental liabilities and provide indemnities to the Company for remediating contamination that occurred prior to the acquisition dates. Some of these environmental indemnifications are subject to caps and limits. No accruals have been recorded for any potential contingent liabilities that will be funded by the prior owners as management does not believe, based on current information, that it is likely that any of the former owners will not perform under any of these agreements. Other than the preceding arrangements, the Company has not entered into any arrangements with third parties to mitigate its exposure to loss from environmental contamination. Claims for recovery of environmental liabilities that are probable of realization totaled \$14 million at March 31, 2008 and are included principally in deferred charges and other assets in the condensed consolidated balance sheets.

### Regulatory Matters

The U.S. Environmental Protection Agency (“EPA”) adopted rules under the Clean Air Act (which relates to emissions of materials into the air) that phased in limitations on the sulfur content of gasoline beginning in 2004 and the sulfur content of on-road diesel fuel beginning in mid-2006 (“Tier II”). The rules include banking and trading credit systems, providing refiners flexibility through 2006 for low-sulfur gasoline and through May 2010 for on-road low-sulfur diesel. Tier II capital spending, which was completed in 2006, totaled \$755 million. In addition, higher operating costs are being incurred as the low-sulfur fuels are produced. In May 2004, the EPA adopted another rule which is phasing in limits on the allowable sulfur content in off-road diesel fuel beginning in June 2007. This rule also provides for banking and trading credit systems. The ultimate impact of this rule may depend upon the effectiveness of the credit systems, Sunoco’s flexibility to modify its production slate and the impact on any capital expenditures of technology selection, permitting requirements and construction schedules, as well as any effect on prices created by the changes in the level of off-road diesel fuel production.

In connection with the phase-in of these off-road diesel fuel rules, Sunoco intends to commence an approximately \$400 million capital project at the Tulsa refinery, which includes a new 24 thousand barrels-per-day hydrotreating unit, sulfur recovery unit and tail gas treater. The project is scheduled for completion in mid-2010 and is designed to enable the production of diesel fuel that meets existing specifications and result in increased feedstock flexibility and an upgraded product slate. Most of the capital for the project is expected to be spent in 2009. In December 2007, Sunoco also announced that it is considering the potential sale of this facility.

National Ambient Air Quality Standards (“NAAQS”) for ozone and fine particles promulgated in 2004 by the EPA have resulted in identification of non-attainment areas throughout the country, including Texas, Pennsylvania, Ohio, New Jersey and West Virginia, where Sunoco operates facilities. The EPA has designated certain areas, including Philadelphia and Houston, as “moderate” non-attainment areas for ozone, which requires them to meet the ozone requirements by 2010, before currently mandated federal control programs would take effect. If a region is not able to demonstrate attainment by 2010, there would be more stringent offset requirements, and, if a region cannot submit an approvable State Implementation Plan (“SIP”), there could

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be other negative consequences. In December 2006, the District of Columbia Circuit Court of Appeals overturned the EPA's ozone attainment plan, including revocation of Clean Air Act Section 185(a) fee provisions. Sunoco will likely be subject to non-attainment fees in Houston, but any additional costs are not expected to be material. In 2005, the EPA also identified 21 counties which, based on 2003-2004 data, now are in attainment of the fine particles standard. Sunoco's Toledo refinery is within one of these attainment areas. In September 2006, the EPA issued a final rule tightening the standard for fine particles. This standard is currently being challenged in federal court by various states and environmental groups. In March 2007, the EPA issued final rules to implement the 1997 fine particle matter (PM 2.5) standards. States had until April 2008 to submit plans to the EPA demonstrating attainment by 2010 or, at the latest, 2015. However, the March 2007 rule does not address attainment of the September 2006 standard. In March 2008, the EPA promulgated a new, more stringent ozone standard. Regulatory programs, when established to implement the EPA's air quality standards, could have an impact on Sunoco and its operations. However, the potential financial impact cannot be reasonably estimated until the EPA promulgates regulatory programs to attain the standards, and the states, as necessary, develop and implement revised SIPs to respond to the new regulations.

Through the operation of its refineries, chemical plants, marketing facilities and coke plants, Sunoco's operations emit greenhouse gases ("GHG"), including carbon dioxide. There are various legislative and regulatory measures to address GHG emissions which are in various stages of review, discussion or implementation. These include federal and state actions to develop programs for the reduction of GHG emissions. While it is currently not possible to predict the impact, if any, that these issues will have on the Company or the industry in general, they could result in increases in costs to operate and maintain the Company's facilities, as well as capital outlays for new emission control equipment at these facilities. In addition, regulations limiting GHG emissions or carbon content of products, which target specific industries such as petroleum refining or chemical or coke manufacturing could adversely affect the Company's ability to conduct its business and also may reduce demand for its products.

Under a law that was enacted in August 2005, a renewable fuels mandate for ethanol use in gasoline was established (immediately in California and on May 5, 2006 for the rest of the nation). Although the act did not ban MTBE, during the second quarter of 2006, Sunoco discontinued the use of MTBE and increased its use of ethanol in gasoline. This change by Sunoco and other refiners in the industry has price and supply implications in the marketplace. In December 2007, another law was enacted which increases automobile mileage standards nearly 40 percent to 35 miles per gallon by 2020 and increases the renewable fuels mandate to 36 billion gallons per year by 2022. Any additional federal and state legislation could also have a significant impact on market conditions and the profitability of Sunoco and the industry in general.

### MTBE Litigation

Sunoco, along with other refiners, manufacturers and sellers of gasoline are defendants in approximately 78 lawsuits in 18 states and the Commonwealth of Puerto Rico, which allege MTBE contamination in groundwater. Plaintiffs, who include water purveyors and municipalities responsible for supplying drinking water and private well owners, allege that refiners and suppliers of gasoline containing MTBE are responsible for manufacturing and distributing a defective product that contaminates groundwater. Plaintiffs are asserting primarily product liability claims and additional claims including nuisance, trespass,

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negligence, violation of environmental laws and deceptive business practices. In addition, several actions commenced by state authorities allege natural resource damages. Plaintiffs are seeking to rely on a “joint liability of industry” theory at trial, although there has been no ruling as to whether the plaintiffs will be permitted to pursue this theory. Plaintiffs are seeking compensatory damages, and in some cases injunctive relief, punitive damages and attorneys’ fees.

The majority of MTBE cases have been removed to federal court and consolidated for pretrial purposes in the U.S. District Court for the Southern District of New York (MDL 1358) (“MDL Litigation”). Discovery is proceeding in four focus cases. Sunoco is a defendant in three of those cases. In one of the four focus cases, the *Suffolk County Water Authority* case, the court has set a trial date in September 2008. In addition, four private well owner cases in which Sunoco is a defendant are moving forward. Two of the cases, which are part of the MDL Litigation, could go to trial in the latter part of 2008. The other two cases are pending in state court. The Second Circuit Court of Appeals (“Second Circuit”) recently rendered a decision in two MTBE cases that are part of the MDL Litigation in which it held that there was no federal jurisdiction for the removal of these cases to federal court and consequently, ordered that the cases be remanded back to the state courts from which they originated. The parties and the judge in the MDL Litigation evaluated the impact of the Second Circuit’s decision on the remaining cases that are part of the MDL Litigation and a number of additional cases were remanded back to the state court.

In December 2007, Sunoco, along with other refiners, entered into a settlement in principle pertaining to certain MTBE cases. This settlement will cover 53 of the cases referred to above, including the *Suffolk County Water Authority* case. The settlement for these cases will require a cash payment by the group of settling refiner defendants of approximately \$422 million (which includes attorneys’ fees) plus an agreement in the future to fund costs of treating existing wells as to which MTBE has not currently been detected but which later is detected, over four consecutive quarters, above certain concentration levels. As MTBE is no longer used, and based on a generally declining trend in MTBE contamination, the Company does not anticipate substantial costs associated with the future treatment of existing wells. Under the settlement, Sunoco was assigned an allocation percentage and will be required to make a cash payment of approximately \$28 million. In addition to the cash payment, Sunoco will participate on the same basis in any costs of future treatment of existing wells. Sunoco is attempting to recover the amount it is required to pay in settlement from its insurance carriers. In connection with the settlement, the Company established a \$17 million after-tax accrual in the fourth quarter of 2007.

For the group of MTBE cases that are not covered by the settlement, there has been insufficient information developed about the plaintiffs’ legal theories or the facts that would be relevant to an analysis of the ultimate liability to Sunoco. Based on the current law and facts available at this time, no accrual has been established for any potential damages at March 31, 2008 and Sunoco believes that these cases will not have a material adverse effect on its consolidated financial position.

### Conclusion

Many other legal and administrative proceedings are pending or may be brought against Sunoco arising out of its current and past operations, including matters related to commercial and tax disputes, product liability, antitrust, employment claims, leaks from pipelines and underground storage tanks, natural resource damage claims, premises-liability claims, allegations of exposures of third parties to toxic substances (such as benzene or asbestos) and general environmental claims. Although the

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ultimate outcome of these proceedings and other matters identified above cannot be ascertained at this time, it is reasonably possible that some of these matters could be resolved unfavorably to Sunoco. Management believes that these matters could have a significant impact on results of operations for any future 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 March 31, 2008. Furthermore, management does not believe that the overall costs for environmental remediation activities will have a material impact over an extended period of time on Sunoco's cash flows or liquidity.

### 5. Retirement Benefit Plans.

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

	Defined Benefit Plans		Postretirement Benefit Plans	
	Three Months Ended March 31		Three Months Ended March 31	
	2008	2007	2008	2007
Service cost (cost of benefits earned during the year)	\$ 12	\$ 13	\$ 2	\$ 2
Interest cost on benefit obligations	20	21	6	6
Expected return on plan assets	(26)	(24)	—	—
Amortization of:				
Prior service cost (benefit)	1	—	—	(1)
Actuarial losses	3	8	1	1
Total expense	<u>\$ 10</u>	<u>\$ 18</u>	<u>\$ 9</u>	<u>\$ 8</u>

### 6. Shareholders' Equity.

	At	At
	March 31 2008	December 31 2007
	(Millions of Dollars)	
Common stock, par value \$1 per share	\$ 281	\$ 281
Capital in excess of par value	1,664	1,662
Retained earnings	5,246	5,372
Accumulated other comprehensive loss	(184)	(193)
Common stock held in treasury, at cost	(4,640)	(4,589)
Total	<u>\$ 2,367</u>	<u>\$ 2,533</u>

During the first three months of 2008, the Company repurchased 782 thousand shares of its common stock for \$49 million. At March 31, 2008, the Company had a remaining authorization from its Board to repurchase up to \$600 million of Company common stock from time to time depending on prevailing market conditions and available cash.

The Company increased the quarterly cash dividend paid on common stock from \$.25 per share (\$1.00 per year) to \$.275 per share (\$1.10 per year) beginning with the second quarter of 2007 and then to \$.30 per share (\$1.20 per year) beginning with the second quarter of 2008. The estimated \$35 million dividend for the second quarter of 2008 has been reflected as a reduction in retained earnings at March 31, 2008.

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### 7. Comprehensive Income (Loss).

The following table sets forth Sunoco's comprehensive income (loss) (in millions of dollars):

	Three Months	
	Ended	
	March 31	
	2008	2007
Net income (loss)	\$ (59)	\$ 175
Other comprehensive income (loss), net of related income taxes:		
Reclassifications to earnings of:		
Actuarial loss amortization	3	5
Prior service cost amortization	—	—
Net hedging gains (losses)	3	(23)
Reclassifications of net hedging (gains) losses to earnings	5	(5)
Unrealized gain (loss) on available-for-sale securities	(2)	1
Comprehensive income (loss)	<u>\$ (50)</u>	<u>\$ 153</u>

Sunoco uses derivative instruments to hedge a variety of commodity price risks. Beginning in the second quarter of 2006, Sunoco increased its use of ethanol as an oxygenate component in gasoline in response to the new renewable fuels mandate for ethanol and the discontinuance of the use of MTBE as a gasoline blending component. Since then, most of the ethanol purchased by Sunoco was through normal fixed-price purchase contracts. To reduce the margin risk created by these fixed-price contracts, the Company entered into derivative contracts to sell gasoline at a fixed price to hedge a similar volume of forecasted floating-price gasoline sales over the term of the ethanol contracts. In effect, these derivative contracts have locked in an acceptable differential between the gasoline price and the cost of the ethanol purchases for gasoline blending during this period.

As a result of increases in the price of gasoline, the fair value of the fixed-price gasoline contracts decreased \$1 and \$26 million (\$1 and \$16 million after tax) in the first three months of 2008 and 2007, respectively. As these derivative contracts have been designated as cash flow hedges, these decreases in fair value are not initially included in earnings but rather are reflected in the net hedging losses component of comprehensive income (loss) in the table above. The fair value of these contracts at the time the positions are closed is recognized in earnings when the hedged items are recognized in earnings, with Sunoco's margin reflecting the differential between the gasoline sales prices hedged to a fixed price and the cost of fixed-price ethanol purchases. Net gains (losses) totaling \$(10) and \$19 million (\$(6) and \$12 million after tax) were reclassified to earnings in the first three months of 2008 and 2007, respectively, when these hedged items were recognized in earnings.

### 8. Fair Value Measurements.

Effective January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"), which pertain to certain balance sheet items measured at fair value on a recurring basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about such measurements that are permitted or required under other accounting pronouncements. While SFAS No. 157 may change the method of calculating fair value, it does not require any new fair value measurements.

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In accordance with SFAS No. 157, the Company determines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As required, the Company utilizes valuation techniques that maximize the use of observable inputs (levels 1 and 2) and minimize the use of unobservable inputs (level 3) within the fair value hierarchy established by SFAS No. 157. The Company generally applies the “market approach” to determine fair value. This method uses pricing and other information generated by market transactions for identical or comparable assets and liabilities. Assets and liabilities are classified within the fair value hierarchy based on the lowest level (least observable) input that is significant to the measurement in its entirety.

The following table sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, in the condensed consolidated balance sheet at March 31, 2008 (in millions of dollars):

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets:</b>				
Cash equivalents	\$ 317	\$ —	\$ —	\$317
Available-for-sale securities (Note 7)	16	10	—	26
Derivative contract hedging gains (Note 7)	<u>8</u>	<u>5</u>	<u>—</u>	<u>13</u>
	<u>\$ 341</u>	<u>\$ 15</u>	<u>\$ —</u>	<u>\$356</u>
<b>Liabilities:</b>				
Derivative contract hedging losses (Note 7)	\$ 7	\$ 15	—	\$ 22
	<u>\$ 7</u>	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ 22</u>

The Company is currently evaluating the impact on its financial statements of the remaining provisions of SFAS No. 157, which must be implemented effective January 1, 2009.

In addition, in February 2007, Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS No. 159”), was issued and became effective January 1, 2008. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other eligible items at fair value that were not previously required to be measured at fair value, with unrealized gains and losses on such items reported in earnings. The Company did not elect the use of fair value measurements for any additional items as of March 31, 2008.

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### 9. Business Segment Information.

The following tables set forth certain statement of operations information concerning Sunoco's business segments (in millions of dollars):

Three Months Ended March 31, 2008	Sales and Other Operating Revenue		Segment Income
	Unaffiliated Customers	Inter- segment	(Loss) (after tax)
Refining and Supply	\$ 6,337	\$ 3,299	\$ (123)
Retail Marketing	3,776	—	26
Chemicals	753	—	18
Logistics	1,758	634	15
Coke	172	3	25
Corporate and Other	—	—	(20)*
Consolidated	<u>\$ 12,796</u>		<u>\$ (59)</u>
Three Months Ended March 31, 2007	Unaffiliated Customers	Inter- segment	Segment Income
Refining and Supply	\$ 4,267	\$ 2,428	\$ 76
Retail Marketing	3,041	—	7
Chemicals	611	—	9
Logistics	1,098	452	9
Coke	118	3	11
Corporate and Other	—	—	63**
Consolidated	<u>\$ 9,135</u>		<u>\$ 175</u>

\* Consists of \$17 million of after-tax corporate expenses and \$3 million of after-tax net financing expenses and other.

\*\* Consists of \$15 million of after-tax corporate expenses, \$12 million of after-tax net financing expenses and other and a \$90 million after-tax gain related to the prior issuance of Sunoco Logistics Partners L.P. limited partnership units (Note 2).

### 10. New Accounting Pronouncements.

In December 2007, Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"), was issued. SFAS No. 141R retains the fundamental requirements of Statement of Financial Accounting Standards No. 141, "Business Combinations." Under the new standard, the acquirer must recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree measured at their fair values as of the acquisition date. SFAS No. 141R also requires that contingent consideration be recognized at fair value on the acquisition date and that any acquisition-related costs be recognized separately from the acquisition and expensed as incurred.

In December 2007, Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"), was issued. Among other things, SFAS No. 160 amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to establish standards for the accounting and reporting of noncontrolling (minority) interests in consolidated financial statements. The new standard will require that minority interests be reported as a component of shareholders' equity and that consolidated net income include amounts attributable to the minority interests with such amounts separately disclosed on the face of the statement of operations. SFAS No. 160 also will require that all changes in minority interests that do not result in a loss of control of the subsidiary be accounted for as equity transactions.

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In March 2008, Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"), was issued. SFAS No. 161 amends and expands the disclosure requirements for derivative instruments and hedging activities under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 161 will require a more detailed discussion of how an entity uses derivative instruments and hedging activities and how such derivative instruments and related hedged items affect the entity's financial position, financial performance and cash flows. Among other things, the expanded disclosures will also require presentation of the fair values of derivative instruments and their gains and losses in tabular format and enhanced liquidity disclosures, including discussion of credit-risk-related derivative features.

SFAS No. 141R, SFAS No. 160 and SFAS No. 161 must be implemented effective January 1, 2009. Sunoco is evaluating the impact of these new accounting principles on its financial statements.

### 11. Subsequent Event.

On April 28, 2008, Sunoco Logistics Partners L.P. entered into definitive agreements with affiliates of Exxon Mobil Corporation to acquire a 472 mile refined products pipeline system, six refined products terminal facilities with a combined storage capacity of approximately 1.2 million barrels and certain other related assets located in Texas for approximately \$200 million. The transactions, which are subject to necessary regulatory filings and approvals and satisfaction of certain other closing conditions, are expected to be completed in the third quarter of 2008.

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

## RESULTS OF OPERATIONS

Earnings Profile of Sunoco Businesses (after tax)

	Three Months Ended		
	March 31		
	<u>2008</u>	<u>2007</u>	<u>Variance</u>
	(Millions of Dollars)		
Refining and Supply	\$(123)	\$ 76	\$ (199)
Retail Marketing	26	7	19
Chemicals	18	9	9
Logistics	15	9	6
Coke	25	11	14
Corporate and Other:			
Corporate expenses	(17)	(15)	(2)
Net financing expenses and other	(3)	(12)	9
Issuance of Sunoco Logistics Partners L.P. limited partnership units	—	90	(90)
Consolidated net income (loss)	<u>\$ (59)</u>	<u>\$ 175</u>	<u>\$ (234)</u>

Analysis of Earnings Profile of Sunoco Businesses

In the three-month period ended March 31, 2008, Sunoco had a net loss of \$59 million, or \$.50 per share of common stock on a diluted basis, compared to net income of \$175 million, or \$1.44 per share, in the first quarter of 2007.

The \$234 million decrease in results in the first quarter of 2008 was primarily due to lower margins in Sunoco's Refining and Supply business (\$162 million), the absence of a gain recognized in 2007 related to the prior issuance of Sunoco Logistics Partners L.P. limited partnership units (\$90 million), higher expenses (\$31 million) and an unfavorable income tax consolidation adjustment in 2008 (\$9 million). Partially offsetting these negative factors were higher average retail gasoline margins (\$19 million), lower net financing expenses (\$9 million) and higher income attributable to Sunoco's Coke (\$14 million), Chemicals (\$9 million) and Logistics (\$6 million) businesses.

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Refining and Supply

	For the Three Months Ended	
	March 31	
	2008	2007
Income (loss) (millions of dollars)	\$ (123)	\$ 76
Wholesale margin* (per barrel):		
Total Refining and Supply	\$ 3.43	\$ 6.98
Northeast Refining	\$ 3.50	\$ 5.25
MidContinent Refining	\$ 3.21	\$ 11.42
Crude inputs as percent of crude unit rated capacity	85%**	85%
Throughputs (thousands of barrels daily):		
Crude oil	777.9	761.5
Other feedstocks	78.3	79.4
Total throughputs	<u>856.2</u>	<u>840.9</u>
Products manufactured (thousands of barrels daily):		
Gasoline	393.5	401.4
Middle distillates	298.6	285.4
Residual fuel	56.3	61.1
Petrochemicals	32.8	34.4
Lubricants	12.2	12.9
Other	95.3	75.8
Total production	888.7	871.0
Less: Production used as fuel in refinery operations	40.4	39.7
Total production available for sale	<u>848.3</u>	<u>831.3</u>

\* Wholesale sales revenue less related cost of crude oil, other feedstocks, product purchases and terminalling and transportation divided by production available for sale.

\*\* Reflects the impact of a 10 thousand barrels-per-day increase in crude unit capacity in MidContinent Refining in July 2007 attributable to a crude unit debottleneck project at the Toledo refinery.

Refining and Supply had a loss of \$123 million in the current quarter versus income of \$76 million in the first quarter of 2007. The \$199 million decrease in results was due to lower realized margins (\$162 million) and higher expenses (\$44 million), partially offset by higher production volumes (\$5 million). The lower margins reflect the negative impact of much higher average crude oil costs and lower product demand than a year ago, especially for gasoline, while the higher expenses were largely the result of increased prices for purchased fuel. Production volumes increased in the first quarter of 2008 compared to the year-ago period, although planned and unplanned maintenance work reduced production by approximately 11 million barrels throughout the refining system versus the record level of production in the fourth quarter of 2007. Production in the first quarter of 2007 was negatively impacted by major turnaround and expansion work at the Philadelphia refinery as well as downtime at the Tulsa and Marcus Hook refineries.

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### Retail Marketing

	For the Three Months Ended	
	March 31	
	2008	2007
Income (millions of dollars)	\$ 26	\$ 7
Retail margin* (per barrel):		
Gasoline	\$ 4.68	\$ 3.48
Middle distillates	\$ 7.12	\$ 6.84
Sales (thousands of barrels daily):		
Gasoline	280.1	299.3
Middle distillates	<u>37.7</u>	<u>46.9</u>
	<u>317.8</u>	<u>346.2</u>
Retail gasoline outlets	<u>4,682</u>	<u>4,683</u>

\* Retail sales price less related wholesale price, terminalling and transportation costs and consumer excise taxes per barrel. The retail sales price is the weighted-average price received through the various branded marketing distribution channels.

Retail Marketing earned \$26 million in the current quarter versus \$7 million in the first quarter of 2007. The \$19 million increase in earnings was primarily due to higher average retail gasoline margins (\$19 million) and lower expenses (\$6 million), partially offset by lower gasoline and distillate sales volumes (\$7 million).

### Chemicals

	For the Three Months Ended	
	March 31	
	2008	2007
Income (millions of dollars)	\$ 18	\$ 9
Margin* (cents per pound):		
All products**	10.6¢	10.5¢
Phenol and related products	9.2¢	8.8¢
Polypropylene**	12.5¢	12.7¢
Sales (millions of pounds):		
Phenol and related products	599	592
Polypropylene	569	548
Other	<u>24</u>	<u>20</u>
	<u>1,192</u>	<u>1,160</u>

\* Wholesale sales revenue less the cost of feedstocks, product purchases and related terminalling and transportation divided by sales volumes.

\*\* The polypropylene and all products margins include the impact of a long-term supply contract with Equistar Chemicals, L.P. which is priced on a cost-based formula that includes a fixed discount.

Chemicals earned \$18 million in the first quarter of 2008 versus \$9 million in the first quarter of 2007. The \$9 million increase in earnings was due primarily to lower expenses (\$6 million) and higher sales volumes (\$2 million). The lower expenses during the first quarter of 2008 were largely due to the transfer of cumene and propylene splitter assets to Refining and Supply, effective January 1, 2008. This asset transfer also reduced margins during the current quarter which was offset by higher realized margins on both phenol and polypropylene sales.

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### *Logistics*

Sunoco's Logistics segment earned \$15 million in the first quarter of 2008 versus \$9 million in the first quarter of 2007. The \$6 million increase was due to record results from Sunoco Logistics Partners L.P. which benefited from strong performance in its western pipeline system and terminalling operations.

### *Coke*

Coke earned \$25 million in the first quarter of 2008 versus \$11 million in the first quarter of 2007. The \$14 million increase in earnings was due primarily to increased price realizations from coal and coke production at Jewell, partially offset by lower tax benefits from cokemaking operations. Beginning in 2008, most of the coke production at the Jewell cokemaking operation and all of the coke production at the Indiana Harbor cokemaking operation are no longer eligible to generate nonconventional fuel tax credits.

In February 2007, SunCoke Energy entered into an agreement with two customers under which SunCoke Energy will build, own and operate a second 550 thousand tons-per-year cokemaking facility and associated cogeneration power plant at its Haverhill site. Construction of these facilities, which is estimated to cost approximately \$250 million, is currently underway, and the facilities are expected to be operational in the second half of 2008. Expenditures through March 31, 2008 totaled approximately \$192 million. In connection with this agreement, the customers agreed to purchase, over a 15-year period, a combined 550 thousand tons per year of coke from the cokemaking facility. In addition, the heat recovery steam generation associated with the cokemaking process will produce and supply steam to the 67 megawatt turbine, which will provide, on average, 46 megawatts of power into the regional power market.

In February 2008, SunCoke Energy entered into an agreement with U.S. Steel under which SunCoke Energy will build, own and operate a 650 thousand tons-per-year cokemaking facility adjacent to U.S. Steel's steelmaking facility in Granite City, Illinois. Construction of this facility is expected to be completed in the fourth quarter of 2009 at a cost of approximately \$300 million. In connection with this agreement, U.S. Steel has agreed to purchase, over a 15-year period, such coke production as well as the steam generated from the heat recovery cokemaking process at this facility.

In March 2008, SunCoke Energy entered into an agreement with AK Steel under which SunCoke Energy will build, own and operate a cokemaking facility and associated cogeneration power plant adjacent to AK Steel's Middletown, Ohio steelmaking facility. These facilities are expected to cost approximately \$350 million and be capable of producing approximately 550 thousand tons of coke per year. In addition, the heat recovery steam generation associated with the cokemaking process will provide, on average, 46 megawatts of power into the regional power market. In connection with this agreement, which is contingent upon receipt of all necessary permits and available economic incentives, AK Steel has agreed to purchase, over a 20-year period, all of the coke and available electrical power from these facilities.

SunCoke Energy is currently discussing other opportunities for developing new heat recovery cokemaking facilities with several domestic and international steel companies. Such cokemaking facilities could be either wholly owned or owned through a joint venture with one or more parties. The steel company customers would be expected to purchase coke production and, as applicable, steam or electrical power production under long-term take-or-pay contracts or on an equivalent basis.

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### *Corporate and Other*

Corporate Expenses – Corporate administrative expenses were \$17 million after tax in the first quarter of 2008 versus \$15 million after tax in the first quarter of 2007. The \$2 million increase was primarily due to a \$9 million unfavorable income tax consolidation adjustment, partially offset by lower accruals for performance-related incentive compensation.

Net Financing Expenses and Other – Net financing expenses and other were \$3 million after tax in the first quarter of 2008 versus \$12 million after tax in the first quarter of 2007. The \$9 million decrease was primarily due to lower interest expense (\$3 million), higher interest income (\$2 million) and the absence of expense attributable to the preferential return of third-party investors in Sunoco's Indiana Harbor cokemaking operations (\$3 million). The preferential return period related to Indiana Harbor ended in the fourth quarter of 2007 (see Note 2 to the condensed consolidated financial statements).

Issuance of Sunoco Logistics Partners L.P. Limited Partnership Units – During the first quarter of 2007, Sunoco recognized a \$90 million after-tax gain related to the prior issuance of limited partnership units of the Partnership to the public. (See Note 2 to the condensed consolidated financial statements.)

### Analysis of Condensed Consolidated Statements of Operations

Revenues — Total revenues were \$12.81 billion in the first quarter of 2008 compared to \$9.31 billion in the first quarter of 2007. The 38 percent increase was primarily due to higher refined product prices and higher crude oil sales in connection with the crude oil gathering and marketing activities of the Company's Logistics operations. Partially offsetting these positive factors were lower refined product sales volumes.

Costs and Expenses — Total pretax costs and expenses were \$12.91 billion in the current three-month period compared to \$9.03 billion in the first quarter of 2007. The 43 percent increase was primarily due to higher crude oil and refined product acquisition costs resulting largely from price increases and higher crude oil costs in connection with the crude oil gathering and marketing activities of the Company's Logistics operations.

## FINANCIAL CONDITION

### Cash and Working Capital

At March 31, 2008, Sunoco had cash and cash equivalents of \$347 million compared to \$648 million at December 31, 2007 and had a working capital deficit of \$1,249 million compared to a working capital deficit of \$1,002 million at December 31, 2007. The \$301 million decrease in cash and cash equivalents was due to a \$214 million net use of cash in investing activities and a \$156 million net use of cash in financing activities, partially offset by \$69 million of net cash provided by operating activities ("cash generation"). 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 exceeded their carrying value at March 31, 2008 by \$4,418 million. Inventories valued at LIFO, which consist of crude oil as well as 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.

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### Cash Flows from Operating Activities

In the first three months of 2008, Sunoco's cash generation was \$69 million compared to \$237 million in the first three months of 2007. This \$168 million decrease in cash generation was primarily due to lower operating results and an increase in working capital levels pertaining to operating activities.

### Financial Capacity

Management currently believes that future cash generation will be sufficient to satisfy Sunoco's ongoing capital requirements, to fund its pension obligations (see "Pension Plan Funded Status" below) 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 reductions in margins for products sold and increases in the levels of capital spending (including acquisitions) and working capital. During those periods, the Company may supplement its cash generation with proceeds from financing activities.

The Company has a \$1.3 billion revolving credit facility (the "Facility"), of which \$1.2245 billion matures in August 2012 with the balance to mature in August 2011. The Facility provides the Company with access to short-term financing and is intended to support the issuance of commercial paper, letters of credit and other debt. The Company also can borrow directly from the participating banks under the Facility. The Facility is subject to commitment fees, which are not material. Under the terms of the Facility, Sunoco is required to maintain tangible net worth (as defined in the Facility) in an amount greater than or equal to targeted tangible net worth (targeted tangible net worth being determined by adding \$1.125 billion and 50 percent of the excess of net income over share repurchases (as defined in the Facility) for each quarter ended after March 31, 2004). At March 31, 2008, the Company's tangible net worth was \$2.6 billion and its targeted tangible net worth was \$1.7 billion. The Facility also requires that Sunoco's ratio of consolidated net indebtedness, including borrowings of Sunoco Logistics Partners L.P., to consolidated capitalization (as those terms are defined in the Facility) not exceed .60 to 1. At March 31, 2008, this ratio was .33 to 1. At March 31, 2008, the Facility was being used to support \$103 million of floating-rate notes due in 2034.

Sunoco Logistics Partners L.P. has a \$400 million revolving credit facility, which expires in November 2012. This facility is available to fund the Partnership's working capital requirements, to finance acquisitions, and for general partnership purposes. Amounts outstanding under this facility totaled \$50 and \$91 million at March 31, 2008 and December 31, 2007, respectively. The facility contains a covenant requiring the Partnership to maintain a ratio of up to 4.75 to 1 of its consolidated total debt (including letters of credit) to its consolidated EBITDA (each as defined in the facility). At March 31, 2008, the Partnership's ratio of its consolidated debt to its consolidated EBITDA was 2.8 to 1.

In November 2007, the Partnership entered into two standby letters of credit totaling \$130 million. The letters of credit, which are effective January 1, 2008, are required in connection with certain crude oil exchange contracts in which the Partnership is a party. The letters of credit are subject to commitment fees, which are not material.

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

	At March 31 2008	At December 31 2007
Current portion of long-term debt	\$ 3	\$ 4
Long-term debt	1,683	1,724
Total debt*	<u>\$ 1,686</u>	<u>\$ 1,728</u>

\* Includes \$474 and \$515 million at March 31, 2008 and December 31, 2007, respectively, attributable to Sunoco Logistics Partners L.P.

Management believes there is sufficient borrowing capacity available to pursue strategic opportunities as they arise. In addition, the Company has the option of issuing additional common or preference stock or selling an additional portion of its Sunoco Logistics Partners L.P. interests, and Sunoco Logistics Partners L.P. has the option of issuing additional common units.

## PENSION PLAN FUNDED STATUS

The following table sets forth the components of the change in market value of the investments in Sunoco's defined benefit pension plans (in millions of dollars):

	Three Months Ended March 31, 2008	Year Ended December 31, 2007
Market value of investments at beginning of period	\$ 1,315	\$ 1,287
Increase (reduction) in market value of investments resulting from:		
Net investment income (loss)	(87)	75
Company contributions	—	100
Plan benefit payments	(31)	(147)
	<u>\$ 1,197</u>	<u>\$ 1,315</u>

Management currently anticipates making up to \$100 million of voluntary contributions to its funded defined benefit plans in 2008. Management believes that the pension plans can be funded over time without a significant impact on liquidity. Future changes in the financial markets and/or interest rates could result in additional significant increases or decreases to the accumulated other comprehensive loss component of shareholders' equity and to future pension expense and funding requirements.

## DIVIDENDS AND SHARE REPURCHASES

The Company increased the quarterly cash dividend paid on common stock from \$.25 per share (\$1.00 per year) to \$.275 per share (\$1.10 per year) beginning with the second quarter of 2007 and then to \$.30 per share (\$1.20 per year) beginning with the second quarter of 2008. The estimated \$35 million dividend for the second quarter of 2008 has been reflected as a reduction in retained earnings at March 31, 2008.

During the first three months of 2008, the Company repurchased 782 thousand shares of its common stock for \$49 million. At March 31, 2008, the Company had a remaining authorization from its Board to repurchase up to \$600 million of Company common stock from time to time depending on prevailing market conditions and available cash (see "Item 2. Unregistered Sales of Equity Securities and Use of Proceeds" below).

## NEW ACCOUNTING PRONOUNCEMENTS

For a discussion of Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations," Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements" and Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which must be implemented effective January 1, 2009, see Note 10 to the condensed consolidated financial statements.

## FORWARD-LOOKING STATEMENTS

Some of the information included in this quarterly report on Form 10-Q contains "forward-looking statements" (as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). These forward-looking statements discuss estimates, goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to the Company, based on current beliefs of management as well as assumptions made by, and information currently available to, Sunoco. Forward-looking statements generally will be accompanied by words such as "anticipate," "believe," "budget," "could," "estimate," "expect," "forecast," "intend," "may," "plan," "possible," "potential," "predict," "project," "scheduled," "should," or other similar words, phrases or expressions that convey the uncertainty of future events or outcomes. Although management 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 refining, marketing and chemical margins;
- Changes in coal and coke prices;
- Variation in petroleum-based commodity prices and availability of crude oil and feedstock supply or transportation;
- Effects of transportation disruptions;
- Changes in the price differentials between light-sweet and heavy-sour crude oils;
- Changes in the marketplace which may affect supply and demand for Sunoco's products;
- Changes in competition and competitive practices, including the impact of foreign imports;
- Effects of weather conditions and natural disasters on the Company's operating facilities and on product supply and demand;
- Age of, and changes in the reliability, efficiency and capacity of, the Company's operating facilities or those of third parties;
- Changes in the level of capital expenditures or operating expenses;

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- Effects of adverse events relating to the operation of the Company's facilities and to the transportation and storage of hazardous materials (including equipment malfunction, explosions, fires, spills, and the effects of severe weather conditions);
- Changes in the level of environmental capital, operating or remediation expenditures;
- Delays and/or costs related to construction, improvements and/or repairs of facilities (including shortages of skilled labor, the issuance of applicable permits and inflation);
- Changes in product specifications;
- Availability and pricing of ethanol;
- Political and economic conditions in the markets in which the Company, its suppliers or customers operate, including the impact of potential terrorist acts and international hostilities;
- Military conflicts between, or internal instability in, one or more oil producing countries, governmental actions and other disruptions in the ability to obtain crude oil;
- Ability to conduct business effectively in the event of an information systems failure;
- Ability to identify acquisitions, execute them under favorable terms and integrate them into the Company's existing businesses;
- Ability to enter into joint ventures and other similar arrangements under favorable terms;
- Changes in the availability and cost of debt and equity financing;
- Changes in the credit ratings assigned to the Company's debt securities or credit facilities;
- Changes in insurance markets impacting costs and the level and types of coverage available;
- Changes in tax laws or their interpretations, including pension funding requirements;
- Changes in financial markets impacting pension expense and funding requirements;
- Risks related to labor relations and workplace safety;
- Nonperformance or force majeure by, or disputes with, major customers, suppliers, dealers, distributors or other business partners;
- General economic, financial and business conditions which could affect Sunoco's financial condition and results of operations;

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- Changes in, or new, statutes and government regulations or their interpretations, including those relating to the environment and global warming;
- Claims of the Company's noncompliance with statutory and regulatory requirements; and
- Changes in the status of, or initiation of new, litigation, arbitration, or other proceedings to which the Company is a party or liability resulting from such litigation, arbitration, or other proceedings, including natural resource damage claims.

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. Other factors not discussed herein could also have material adverse effects on the Company. All forward-looking statements included in this quarterly report on 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.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes to the Company's exposure to market risk since December 31, 2007.

### **Item 4. Controls and Procedures**

As required by Rule 13a-15 under the Exchange Act, as of the end of the period covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chairman, Chief Executive Officer and President and the Company's Senior Vice President and Chief Financial Officer. Based upon that evaluation, the Company's Chairman, Chief Executive Officer and President and the Company's Senior Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chairman, Chief Executive Officer and President and the Company's Senior Vice President and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting during the first quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II.  
OTHER INFORMATION

**Item 1. Legal Proceedings**

Various lawsuits and governmental proceedings arising in the ordinary course of business are pending against the Company, as well as the lawsuits and proceedings discussed below:

Administrative Proceedings

Sunoco Logistics Partners L.P., the master limited partnership in which Sunoco has a 43 percent ownership interest, is a party in the following administrative proceeding:

In November 2007 and February 2008, Sunoco Logistic Partners L.P. received notices of administrative fines from the Delaware County Regional Water Control Authority totaling approximately \$600 thousand relating to alleged non-compliance with monthly average arsenic limits. Sunoco Logistic Partners L.P. is currently in discussions with the governmental agencies to resolve these matters. (See also the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.)

MTBE Litigation

Sunoco, along with other refiners, manufacturers and sellers of gasoline are defendants in approximately 78 lawsuits in 18 states and the Commonwealth of Puerto Rico, which allege MTBE contamination in groundwater. Plaintiffs, who include water purveyors and municipalities responsible for supplying drinking water and private well owners, allege that refiners and suppliers of gasoline containing MTBE are responsible for manufacturing and distributing a defective product that contaminates groundwater. Plaintiffs are asserting primarily product liability claims and additional claims including nuisance, trespass, negligence, violation of environmental laws and deceptive business practices. In addition, several actions commenced by state authorities allege natural resource damages. Plaintiffs are seeking to rely on a "joint liability of industry" theory at trial, although there has been no ruling as to whether the plaintiffs will be permitted to pursue this theory. Plaintiffs are seeking compensatory damages, and in some cases injunctive relief, punitive damages and attorneys' fees.

The majority of MTBE cases have been removed to federal court and consolidated for pretrial purposes in the U.S. District Court for the Southern District of New York (MDL 1358) ("MDL Litigation"). Discovery is proceeding in four focus cases. Sunoco is a defendant in three of those cases. In one of the four focus cases, the *Suffolk County Water Authority* case, the court has set a trial date in September 2008. In addition, four private well owner cases in which Sunoco is a defendant are moving forward. Two of the cases, which are part of the MDL Litigation, could go to trial in the latter part of 2008. The other two cases are pending in state court. The Second Circuit Court of Appeals ("Second Circuit") recently rendered a decision in two MTBE cases that are part of the MDL Litigation in which it held that there was no federal jurisdiction for the removal of these cases to federal court and consequently, ordered that the cases be remanded back to the state courts from which they originated. The parties and the judge in the MDL Litigation evaluated the impact of the Second Circuit's decision on the remaining cases that are part of the MDL Litigation and a number of additional cases were remanded back to the state court.

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In December 2007, Sunoco, along with other refiners, entered into a settlement in principle pertaining to certain MTBE cases. This settlement will cover 53 of the cases referred to above, including the *Suffolk County Water Authority* case. The settlement for these cases will require a cash payment by the group of settling refiner defendants of approximately \$422 million (which includes attorneys' fees) plus an agreement in the future to fund costs of treating existing wells as to which MTBE has not currently been detected but which later is detected, over four consecutive quarters, above certain concentration levels. As MTBE is no longer used, and based on a generally declining trend in MTBE contamination, the Company does not anticipate substantial costs associated with the future treatment of existing wells. Under the settlement, Sunoco was assigned an allocation percentage and will be required to make a cash payment of approximately \$28 million. In addition to the cash payment, Sunoco will participate on the same basis in any costs of future treatment of existing wells. Sunoco is attempting to recover the amount it is required to pay in settlement from its insurance carriers. In connection with the settlement, the Company established a \$17 million after-tax accrual in the fourth quarter of 2007.

The MDL Litigation includes the following recently filed case, which is not part of the settlement in principle discussed above:

*Plainview Water District v. Sunoco, et al.* (U.S. District Court, Southern District of New York.), was filed in January 2008.

For the group of MTBE cases that are not covered by the settlement, there has been insufficient information developed about the plaintiffs' legal theories or the facts that would be relevant to an analysis of the ultimate liability to Sunoco. Based on the current law and facts available at this time, no accrual has been established for any potential damages at March 31, 2008 and Sunoco believes that these cases will not have a material adverse effect on its consolidated financial position.

Many other legal and administrative proceedings are pending or may be brought against Sunoco arising out of its current and past operations, including matters related to commercial and tax disputes, product liability, antitrust, employment claims, leaks from pipelines and underground storage tanks, natural resource damage claims, premises-liability claims, allegations of exposures of third parties to toxic substances (such as benzene or asbestos) and general environmental claims. Although the ultimate outcome of these proceedings 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 that may arise from such matters would not be material in relation to Sunoco's business or consolidated financial position at March 31, 2008.

### **Item 1A. Risk Factors**

There have been no material changes to the risk factors faced by the Company since December 31, 2007.

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### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below provides a summary of all repurchases by the Company of its common stock during the three-month period ended March 31, 2008:

<u>Period</u>	<u>Total Number Of Shares Purchased (In Thousands)*</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (In Thousands)**</u>	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (In Millions)**</u>
January 1, 2008 – January 31, 2008	—	\$ —	—	\$ 649
February 1, 2008 – February 29, 2008	782	\$ 63.27	782	\$ 600
March 1, 2008 – March 31, 2008	14	\$ 60.71	—	\$ 600
Total	<u>796</u>	<u>\$ 63.23</u>	<u>782</u>	

\* All of the shares repurchased during the three-month period ended March 31, 2008 were acquired pursuant to the repurchase program that Sunoco publicly announced on September 7, 2006 (see below), except for 14 thousand shares acquired in March 2008, which were purchased from employees in connection with the settlement of tax withholding obligations arising from payment of common stock unit awards.

\*\* On September 7, 2006, the Company's Board of Directors approved a \$1 billion share repurchase program with no stated expiration date.

### Item 6. Exhibits

Exhibits:

- 10.1\* - Amendment No. 1 to the Product Supply Agreement dated as of September 20, 2004 between Linde Gas North America LLC, the successor to BOC Americas (PGS), Inc. and Sunoco, Inc. (R&M), dated as of February 29, 2008.
- 10.2 - Sunoco, Inc. Directors' Deferred Compensation Plan I, as amended and restated effective December 6, 2007.
- 10.3 - Sunoco, Inc. Directors' Deferred Compensation Plan II, as amended and restated effective December 6, 2007.
- 10.4 - Schedule to the Form of Amendment to the Amended and Restated Indemnification Agreement.
- 12 - Statement re Sunoco, Inc. and Subsidiaries Computation of Ratio of Earnings to Fixed Charges for the Three-Month Period Ended March 31, 2008.
- 31.1 - Certification Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 - Certification Pursuant to Exchange Act Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

\* Confidential status has been requested for certain portions thereof pursuant to a Confidential Treatment Request filed May 1, 2008. Such provisions have been separately filed with the Commission.

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- 32.1 - Certification Pursuant to Exchange Act Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 - Certification Pursuant to Exchange Act Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\*\*\*\*\*

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

Sunoco, Inc.  
Investor Relations  
1735 Market Street  
Philadelphia, PA 19103-7583

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: April 30, 2008

<b>Exhibit Number</b>	<b>Exhibit</b>
10.1*	Amendment No. 1 to the Product Supply Agreement dated as of September 20, 2004 between Linde Gas North America LLC, the successor to BOC Americas (PGS), Inc. and Sunoco, Inc. (R&M), dated as of February 29, 2008.
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\* Confidential status has been requested for certain portions thereof pursuant to a Confidential Treatment Request filed May 1, 2008. Such provisions have been separately filed with the Commission.

**THIS EXHIBIT HAS BEEN REDACTED AND IS THE SUBJECT OF A CONFIDENTIAL TREATMENT REQUEST. REDACTED MATERIAL IS MARKED WITH “[\*\*\*\*]” AND HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.**

**Amendment No. 1  
to the Product Supply Agreement dated as of September 20, 2004  
between  
Linde Gas North America LLC, the successor to BOC Americas (PGS), Inc.  
and  
Sunoco, Inc. (R&M)**

This Amendment No. 1 (this “Amendment”) dated as of 29th day of February, 2008 to the Product Supply Agreement dated as of September 20, 2004 (the “Agreement”) is made by and between Linde Gas North America LLC, the successor to BOC Americas (PGS), Inc. (“Linde”) and Sunoco, Inc. (R&M) (“Sunoco”).

**Background**

A. All terms not otherwise defined herein shall have the meanings set forth and established in the Agreement, except that all references in the Agreement to BOC shall refer to Linde.

B. Linde and Sunoco entered into the Agreement for the supply by Linde of Hydrogen to the Sunoco Refinery from the Linde Facility which was to be constructed pursuant to the Construction Agreement and Lease Agreement.

C. Linde has constructed the Linde Facility and commenced the Phase VI supply of Hydrogen and Steam to Sunoco for the Initial Term on April 18, 2006 (Commercial Operations Date).

D. Pursuant to the Agreement, Sunoco was to provide Excess ROG at the times and in the volumes provided for in the Agreement and Linde was to utilize same for the production of Hydrogen for delivery to Sunoco. [\*\*\*\*]

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SECURITIES AND EXCHANGE COMMISSION.**

E. Sunoco has exercised the Sunoco Option set forth in Section 5.7.1 of the Agreement thereby increasing the Dedicated Hydrogen Quantity from [\*\*\*\*] MMSCFD to [\*\*\*\*] MMSCFD as of [\*\*\*\*].

F. Sunoco has requested commercial terms for Hydrogen volumes greater than the Dedicated Hydrogen Quantity. Hydrogen volumes greater than the Dedicated Hydrogen Quantity (“As Available Hydrogen”) shall be supplied on an as available basis which shall mean volumes of Hydrogen within the Linde Facility production capabilities utilizing the available feedstock and not otherwise contractually committed to a Linde Pipeline Customer.

G. Sunoco and Linde have agreed to amend the Agreement to reflect (i) changes in the price for Hydrogen [\*\*\*\*] through a supplemental hydrogen charge (“SHC”) and (ii) the price for As Available Hydrogen through an as available hydrogen charge (“AAHC”).

H. Sunoco and Linde have agreed to modify the Performance Guarantee calculation set forth in Section 9.1.1 of the Agreement.

Now, therefore, in consideration of the agreements and undertakings set forth herein, and intending to be legally bound hereby, Sunoco and Linde agree to amend the Agreement, as follows:

1. **Supplemental Hydrogen Charge (Section 5.9 of the Agreement)**

1.1 In addition to the payments and charges for the supply of Hydrogen as set forth in Section 5.9 of the Agreement, on any day that Sunoco supplies less than [\*\*\*\*] MMSCFD of Excess ROG, the following SHC shall apply to all Hydrogen produced by Linde and supplied to Sunoco up to the Dedicated Hydrogen Quantity. For the period beginning as of [\*\*\*\*] and ending [\*\*\*\*], the SHC shall be added to the Variable Operating Charge (VOct) based on the following schedule:

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Excess ROG Delivered (MMSCFD)	$Y \geq [****]$	$[****] > Y \leq [****]$	$[****] > Y \leq [****]$	$[****] > Y \leq [****]$	$[****] > Y \leq [****]$	$[****] > Y \leq [****]$	$[****] > Y \leq [****]$	[****]
SHCo \$ per kscf	\$[****]	\$[****]	\$[****]	\$[****]	\$[****]	\$[****]	\$[****]	\$[****]

Beginning on [\*\*\*\*], the SHC shall be added to the Variable Operating Charge (VOct) based on the following schedule:

Excess ROG Delivered (MMSCFD)	$Y \geq [****]$	$[****] > Y \leq [****]$	$[****] > Y \leq [****]$	$[****] > Y \leq [****]$	$[****] > Y \leq [****]$	$[****] > Y \leq [****]$	$[****] > Y \leq [****]$	[****]
SHCo \$ per kscf	\$[****]	\$[****]	\$[****]	\$[****]	\$[****]	\$[****]	\$[****]	\$[****]

Where Y is the quantity of Excess ROG [\*\*\*\*] (MMSCFD). SHCo is subject to escalation based on the following:

$$SHC_n = [****]$$

The terms for [\*\*\*\*] and [\*\*\*\*] shall be in accordance with the Agreement.

During periods when Sunoco is supplying less than the expected volumes of Excess ROG, Sunoco will purchase [\*\*\*\*] Steam generated by Linde.

- 1.2 Due to operational limitations of the purification unit of the Linde Facility, the minimum Excess ROG instantaneous flow rate that can be utilized by Linde is [\*\*\*\*] MMSCFD; Linde reserves the right to decline acceptance of Excess ROG in volumes less than an instantaneous flow rate of [\*\*\*\*] MMSCFD. However, Linde will use commercially reasonable efforts to utilize Excess ROG in volumes of less than [\*\*\*\*] MMSCFD.
- 1.3 The SHC shall be charged by Linde and paid by Sunoco for all Hydrogen delivered by Linde on a daily basis up to the Dedicated Hydrogen Quantity based on the volumes of Excess ROG supplied and delivered to Linde, in accordance with Section 1.1, above. It

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is understood that the Dedicated Hydrogen Quantity will be increased as of [\*\*\*\*] from [\*\*\*\*] MMSCFD to [\*\*\*\*] MMSCFD.

- 1.4 Beginning on [\*\*\*\*], when the Dedicated Hydrogen Quantity is [\*\*\*\*] MMSCFD, the SHC will be applied to the Hydrogen delivered by Linde on a daily basis, up to [\*\*\*\*] MMSCFD times a factor of [\*\*\*\*], based on the volumes of Excess ROG supplied and delivered to Linde, in accordance with Section 1.1, above.
- 1.5 Promptly after the date of this Amendment No. 1, Linde shall issue an invoice with respect to SHC for the period beginning [\*\*\*\*] and ending [\*\*\*\*]. Such invoice shall [\*\*\*\*] and shall be payable in accordance with the terms of the Agreement. Invoices for periods after [\*\*\*\*] will reflect the current SHC. The [\*\*\*\*] invoice will be in the amount of \$[\*\*\*\*] through [\*\*\*\*] (\$[\*\*\*\*] SHC minus \$[\*\*\*\*] already paid by Sunoco).
- 1.6 For the avoidance of doubt the provisions of Section 4.1.1 (b) of the Agreement remain in effect, i.e., Linde has the right to reduce Linde’s obligation to supply Sunoco Hydrogen by reducing the Hydrogen supply by [\*\*\*\*] MMSCFD for each [\*\*\*\*] MMSCFD reduction in Excess ROG supplied and delivered to Linde (“Hydrogen Reduction Volume”). If requested by Sunoco, Linde will use commercially reasonable efforts to supply Sunoco with the Hydrogen Reduction Volume; provided the Hydrogen Reduction Volume is available [\*\*\*\*], the Linde Facility is able to produce such amounts of Hydrogen, and Sunoco has requested an amount of Hydrogen that would include the Hydrogen Reduction Volume, in which event, Linde will sell to Sunoco and Sunoco will purchase from Linde Hydrogen in such amounts as are requested by Sunoco to the extent Hydrogen is so available. Notwithstanding the foregoing, Linde shall not have any obligation to sell Hydrogen to Sunoco in excess of the Dedicated Hydrogen Quantity.

2. **As Available Hydrogen and AAHC**

- 2.1 Linde shall use commercially reasonable efforts to supply As Available Hydrogen requested by Sunoco on an As Available basis. Notwithstanding anything in this Amendment or in the Agreement to the contrary, a reduction in Linde’s obligation to supply Sunoco Hydrogen in accordance with Section 4.1.1(b) of the Agreement and Section 1.6 of this Amendment does not reduce the Dedicated Hydrogen Quantity.
- 2.2 For volumes of As Available Hydrogen delivered to Sunoco, the AAHC to be paid by Sunoco shall be \$[\*\*\*\*], subject to escalation as set forth in Section 2.3 hereof.
- 2.3 Beginning as of [\*\*\*\*], the AAHC shall be subject to monthly escalation as follows:

$$AAHC_n = [****]$$

Where:

AAHC <sub>n</sub>	=	As Available Hydrogen Charge in period n
AAHC	=	Base As Available Hydrogen Charge of \$[****]
NGIn	=	Natural gas price in period n, \$[****] delivered
NGIo	=	Base natural gas price, \$[****] delivered
EPIn	=	Electricity price in period n
EPIo	=	Base Electricity price of \$[****]
PPIo	=	Base Producer Price Index, [****]
PPIn	=	Producer Price Index in period n

3. **Performance Guarantees**

- 3.1 The performance guarantees, penalties and remedies of Article 9 of the Agreement shall not apply to the supply or failure to supply of any As Available Hydrogen.
- 3.2 Section 9.1.1 of the Agreement shall be amended and restated in its entirety to read as follows:

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REDACTED MATERIAL IS MARKED WITH “[\*\*\*\*]” AND HAS BEEN FILED SEPARATELY WITH THE  
SECURITIES AND EXCHANGE COMMISSION.**

“9.1.1. Determination of Nomination Guarantee. Subject to Section 5.11, Linde guarantees that Linde will produce and deliver to Sunoco during the Supply Period Hydrogen within the Hydrogen Specifications at the corresponding daily Sunoco requirements with a minimum Percentage Availability of [\*\*\*\*]% per Contract Year. As used in this Agreement, “Percentage Availability” means the following:

$$\text{Percentage Availability} = \frac{\text{Total Hydrogen supplied by Linde in a Contract Year}}{\text{Total Hydrogen required by Sunoco in such Contract Year}}$$

excluding any (i) period of Zero Hydrogen Supply, (ii) any periods required to safely ramp the Linde Facility up or down based on Sunoco’s change in requirements of Hydrogen, (iii) Linde Schedule Maintenance, (iv) a Force Majeure Event, (v) Hydrogen not meeting the Hydrogen Specifications to the extent accepted by Sunoco, and (vi) Sunoco’s failure to deliver or supply Utilities, Natural Gas or Third-Party Utilities, (vii) Hydrogen supplied in excess of the Dedicated Hydrogen Quantity. For the purposes of the annual calculation of the Percentage Availability, the daily Hydrogen supplied by Linde cannot exceed the daily Hydrogen required by Sunoco. The amount of Hydrogen required by Sunoco shall be determined based on the amount of Hydrogen supplied to Sunoco immediately preceding any event which curtails or restricts the supply of Hydrogen by Linde, regardless of the reduction provisions of Section 4.1.1(b) of the Agreement.”

4. **Miscellaneous**

- 4.1 Except as otherwise specifically provided to the contrary in this Amendment, all of the provisions of the Agreement shall continue in full force and effect in accordance with their express terms. The Agreement as amended by this Amendment, constitutes the entire agreement between the parties with respect to the subject matter hereof, and supersedes all prior or contemporaneous representations, understandings, agreements, communications, or purchase orders between the parties, whether written or oral, relating to the subject matter hereof.
- 4.2 This Amendment may be executed in any number of counterparts, each of which will be deemed to be an original, and all of which together will constitute one instrument. The signature pages to this Agreement may be exchanged by facsimile.

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**THIS EXHIBIT HAS BEEN REDACTED AND IS THE SUBJECT OF A CONFIDENTIAL TREATMENT REQUEST.  
REDACTED MATERIAL IS MARKED WITH “[\*\*\*\*]” AND HAS BEEN FILED SEPARATELY WITH THE  
SECURITIES AND EXCHANGE COMMISSION.**

In Witness Whereof, the parties have executed this Amendment No. 1 to the Product Supply Agreement as the date first set forth above.

**SUNOCO, INC. (R&M)**

**LINDE GAS NORTH AMERICA LLC,  
THE SUCCESSOR TO BOC AMERICAS (PGS), INC.**

By: /s/ Vincent J. Kelley  
Name: Vincent J. Kelley  
Title: SVP Refining

By: /s/ Pat Murphy  
Name: Pat Murphy  
Title: President

*End of Signatures*

**DIRECTORS' DEFERRED COMPENSATION PLAN I**

(Amended and Restated effective December 6, 2007)

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## ARTICLE I

### Definitions

As used in this Plan, the following terms shall have the meanings herein specified:

1.1 95% Withdrawal—shall have the meaning provided herein at Section 7.1.

1.2 Business Combination—shall have the meaning provided herein at Section 1.4(c).

1.3 Cash Unit—shall mean the entry in a Deferred Compensation Account of a credit equal to One Dollar (\$1.00).

1.4 Change in Control—shall mean the occurrence of any of the following events:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act of 1934, as amended) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (1) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (2) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); *provided, however*, that, for purposes of this Section (a), the following acquisitions shall not constitute a Change in Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any company controlled by, controlling or under common control with the Company, or (D) any acquisition by any entity pursuant to a transaction that complies with Sections (c)(1), (c)(2) and (c)(3) of this definition;

(b) Individuals who, as of September 6, 2001, constitute the Board of Directors (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board of Directors; *provided, however*, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors;

(c) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the

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acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (3) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board of Directors providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

1.5 Change in Control Election—shall have the meaning provided herein at Section 7.1

1.6 Committee—shall mean the Governance Committee of the Board of Directors of Sunoco, Inc.

1.7 Company—shall mean Sunoco, Inc., a Pennsylvania corporation. The term “Company” shall include any successor to Sunoco, Inc., any subsidiary or affiliate which has adopted the Plan, or a corporation succeeding to the business of Sunoco, Inc., or any subsidiary or affiliate by merger, consolidation, liquidation or purchase of assets or stock or similar transaction.

1.8 Compensation—shall mean those fees and retainers payable by the Company to a Participant in consideration for his or her service as a Director.

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1.9 Deferred Compensation Account—shall mean, with respect to any Participant, the total amount of the Company’s liability for payment of voluntary deferred compensation to the Participant under this Plan, including any accumulated interest and/or Dividend Equivalents.

1.10 Deferred Payment Election Form—shall mean and refer to the written election by a Participant, in the form prescribed by the Committee, to voluntarily defer the payment of all or a portion of such Participant’s Compensation under this Plan pursuant to Article II hereof.

1.11 Director—shall mean a member of the Board of Directors of Sunoco, Inc.

1.12 Dividend Equivalent—shall mean the entry in a Deferred Compensation Account or a Restricted Deferred Compensation Account of a dividend credit with respect to a Share Unit, each Dividend Equivalent being equal to the dividend paid from time to time on a Share.

1.13 Form of Continuing Deferral—shall mean and refer to the written commitment by a Participant, in the form prescribed by the Committee, to mandatorily defer the payment of all of the Yearly Credit awarded to such Participant under this Plan pursuant to Article IV hereof.

1.14 Incumbent Board—shall have the meaning provided herein at Section 1.4(b).

1.15 Interest Equivalent—shall mean the entry in a Deferred Compensation Account of an interest credit with respect to a Cash Unit, compounded on the basis of the balance in the Participant’s Deferred Compensation Account, applying the interest factor approved by the Committee each year for such purpose.

1.16 Outstanding Company Common Stock—shall have the meaning provided herein at Section 1.4(a).

1.17 Outstanding Company Voting Securities—shall have the meaning provided herein at Section 1.4(a).

1.18 Participant—shall mean a Director who has elected to defer the receipt of compensation or a Director who is required to defer the receipt of the Restricted Share Units in accordance with the terms of this Plan.

1.19 Person—shall have the meaning provided herein at Section 1.4(a).

1.20 Plan—shall mean this Directors’ Deferred Compensation Plan I, as it may be amended from time to time pursuant to Articles XI and XIV, and shall be effective for deferrals of Compensation pursuant to Article III and crediting of Restricted Share Units pursuant to Article IV, for periods ending prior to January 1, 2005.

1.21 Restricted Deferred Compensation Account—shall mean, with respect to any Participant, the total amount of the Company’s liability for payment of Restricted Share Units to the Participant under this Plan.

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1.22 Restricted Share Unit—shall mean the entry in a Restricted Deferred Compensation Account of a credit equal to one Share that will be restricted until death, retirement or termination of Board service.

1.23 Share—shall mean a share of the Company's authorized voting Common Stock (\$1.00 par value per share) and any share or shares of stock of the Company hereafter issued or issuable in substitution or exchange for each such share.

1.24 Share Unit—shall mean the entry in a Deferred Compensation Account of a credit equal to one Share.

## ARTICLE II

### Voluntary Deferral of Directors' Compensation

2.1 Election to Defer. Prior to the beginning of any calendar quarter, a Participant may elect to defer all or a portion of the Compensation that would otherwise be paid to the Participant in the next succeeding calendar quarter, by filing a written notice of election with the Committee on the form(s) prescribed by the Committee. Any such deferral election shall apply only to Compensation to be earned on or after the first day of the calendar quarter following the calendar quarter in which the election is received by the Committee, but in no event will apply to Compensation to be earned in calendar quarters beginning on or after January 1, 2005. An election to defer, made in accordance with this Article II shall be irrevocable. The deferral election form(s) also will permit the Participant to specify:

- (a) the percentage of Compensation to be deferred;
- (b) the form of deferral, being either Cash Units, Share Units, or a combination of the two and the percentage allocations of such;
- (c) the selection of a method of payment as set forth in Article III; and
- (d) the designation of a beneficiary as set forth in Article V.

Without any further action by Participant, the choices specified in the Participant's Deferred Payment Election Form regarding the percentage of Compensation deferred, the form of deferral, the designation of a beneficiary, and the method of payment shall each continue and be applied from calendar quarter to calendar quarter to amounts yet to be deferred. Until further express written notification, on a form prescribed by the Committee, to the contrary, these choices shall continue to be applied to amounts to be credited to such Deferred Compensation Account balance prospectively.

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2.2 Change in Method of Payment Following Commencement of Distribution or Payment. After payment or distribution of amounts credited to the Participant's Deferred Compensation Account has commenced, the Participant may not change the period of time for which such amounts are payable. However, a Participant who was not a Director at any time after December 31, 2006, may convert installment payments to a lump sum distribution subject to a penalty equal to a five percent (5%) reduction in the balance of the Participant's Deferred Compensation Account, which shall be forfeited to the Company.

2.3 Amount of Deferral The amount of Compensation to be deferred shall be designated by the Participant as a percentage of the Director's Compensation in multiples of five percent (5%) but shall not be less than ten percent (10%).

2.4 Time of Election Except as otherwise determined by the Committee in its sole discretion, an election to defer must be filed and received by the Committee by the end of the calendar quarter preceding the calendar quarter in which the Compensation is to be earned. A new Director may also elect to defer Compensation prior to the commencement of his or her term in office.

### ARTICLE III

#### Voluntary Deferred Compensation Accounts

3.1 Creation of Voluntary Deferred Compensation Accounts. Compensation deferred hereunder shall be credited to a Deferred Compensation Account established by the Company for each Participant. The Participant must elect to convert the deferred compensation to either Cash Units or Share Units, which shall be credited to a Participant's Deferred Compensation Account as set forth in the Plan.

3.2 Crediting Share Units. Share Units shall be credited to a Participant's Deferred Compensation Account at the time the Compensation would otherwise have been paid had no election to defer been made. The number of Share Units to be credited to the Deferred Compensation Account shall be determined by dividing the Compensation by the average closing price for Shares as published in the Wall Street Journal under the caption "New York Stock Exchange Composite Transactions" for the ten (10) day period prior to the day on which the Compensation would otherwise have been paid. Any fractional Share Units shall also be credited to a Participant's Deferred Compensation Account. The number of Share Units in a Deferred Compensation Account shall be appropriately adjusted by the Committee in the event of changes in the Company's outstanding common stock by reason of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares or the like, and

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such adjustments shall be conclusive. Share Units shall not entitle any person to the rights of a stockholder.

3.3 Crediting Cash Units. Cash Units shall be credited to a Participant's Deferred Compensation Account at the time Compensation would otherwise have been paid had no election to defer been made.

3.4 Crediting Dividend Equivalents. For Share Units, the Company shall credit the Participant's Deferred Compensation Account with Dividend Equivalents being equal to the dividends declared on the Company's Shares. The crediting shall occur as of the date on which said dividends are paid. The number of Share Units to be credited to the Deferred Compensation Account shall be calculated by dividing the Dividend Equivalents by the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days prior to the day on which the dividends are paid on the Company's Shares. Any fractional Share Units shall also be credited to a Participant's Deferred Compensation Account.

3.5 Crediting Interest Equivalents. For Cash Units credited to their Deferred Compensation Accounts, the Company shall credit the Participant's Deferred Compensation Account on a quarterly basis with an Interest Equivalent.

3.6 Share Unit Conversion. Immediately upon termination of Board service, and so prior to the commencement of any payout or distribution of any amounts hereunder, a Participant may make a one-time election to convert to Cash Units all or a portion of the balance of Share Units in such Participant's Deferred Compensation Account. Any Share Units so converted to Cash Units as a result of this one-time conversion election shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the ten (10) day period immediately prior to such one-time conversion election.

3.7 Time of Payment.

(a) *Benefit Commencement Date*. All payments of a Participant's Deferred Compensation Account not in pay status on January 1, 2005 shall be on the first day of the calendar year following termination of Board service. Upon the death of a Director or former Director, prior to the final payment of all amounts credited to his or her Deferred Compensation Account, the balance of the Deferred Compensation Account shall be paid in accordance with Article V. Provided, however, in no event shall any payment or distribution be made within six (6) months of the Compensation being earned.

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(b) *Acceleration of Benefit Commencement Date Prior to Payment.* At any time prior to the commencement of any payment or distribution of a Participant's Deferred Compensation Account, a Participant who will not attain age 72 on or before December 31, 2010, may request in writing to accelerate the receipt of all or a specified portion of such deferred Compensation amounts to the first day of any calendar quarter; *provided, however*; that such date is at least six (6) months after the end of the quarter in which the Compensation is earned. Any such acceleration will be subject to a penalty equal to a five percent (5%) reduction in the balance of the Participant's Deferred Compensation Account, which shall be forfeited to the Company.

(c) *Transition Election.* Notwithstanding Section 3.7(a), pursuant to Section 3.02 of IRS Notice 2006-79, as modified by Section 3.01(B)(1) of IRS Notice 2007-86, a Participant serving as a Director on or after December 6, 2007 who will attain age 72 on or before December 31, 2010, may elect, with respect to amounts in the Participant's Deferred Compensation Account that are not in pay status and that are not otherwise payable in 2007, to receive payment of such amounts on June 25, 2008, by filing a written notice of election with the Committee on the forms(s) prescribed by the Committee on or before December 14, 2007. Notwithstanding the second sentence of Section 3.8, with respect to amounts to be distributed on June 25, 2008 pursuant to this transition election, (1) a Participant may elect, by filing a written notice of election with the Committee on the form(s) prescribed by the Committee on or before December 14, 2007, to have all or any portion of Share Units converted to Cash Units on January 2, 2008, with Share Units so converted valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading day immediately prior to January 1, 2008, and (2) Share Units not so converted shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to June 25, 2008.

3.8 Method of Payment. For all payments not in pay status on January 1, 2005, a Participant in this part of the Plan shall receive a lump sum payment in cash of all deferred compensation credited to such Participant's Deferred Compensation Account. Share Units credited to the Participant's Deferred Compensation Account shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to each new calendar year.

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## ARTICLE IV

### Restricted Deferred Compensation Accounts

4.1 Creation of Restricted Deferred Compensation Accounts. Compensation deferred under this Article IV shall be credited to a Restricted Deferred Compensation Account established by the Company for each Participant. The Restricted Deferred Compensation Accounts will be initialized as of February 15, 1996 by transferring to the Plan the present value of the accrued benefits of each Participant in the Non-Employee Directors' Retirement Plan. The present value of these accrued benefits will then be converted into Restricted Share Units. The number of Restricted Share Units to be credited to the Restricted Deferred Compensation Account of each Participant will be determined by using the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the ten (10) business days prior to February 15, 1996. Payout of these Restricted Share Units that has not commenced prior to January 1, 2005 shall commence in accordance with the provisions of Section 4.5(a) of the Plan.

4.2 Crediting Share Units. If the Committee elects to do so, for each year ending before January 1, 2005, in conjunction with either the Participant's election or re-election to the Board, a yearly dollar amount ("Yearly Credit") will be credited to a Participant's Restricted Deferred Compensation Account in the form of Restricted Share Units. The number of Restricted Share Units credited to a Participant's Restricted Deferred Compensation Account shall be determined by dividing the Yearly Credit by the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the ten (10) day period prior to the Company's annual meeting. Any fractional Restricted Share Units shall also be credited to a Participant's Restricted Deferred Compensation Account. The number of Restricted Share Units in a Restricted Deferred Compensation Account shall be appropriately adjusted by the Committee in the event of changes in the Company's outstanding common stock by reason of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares or the like, and such adjustments shall be conclusive. Restricted Share Units shall not entitle any person to the rights of a stockholder.

4.3 Crediting Dividend Equivalents. The Company shall credit the Participant's Restricted Deferred Compensation Account with Dividend Equivalents being equal to the dividends declared on the Company's Shares. The crediting shall occur as of the date on which said dividends are paid. The number of Restricted Share Units to be credited to the Restricted Deferred

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Compensation Account shall be calculated by dividing the Dividend Equivalents by the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days prior to the day on which the dividends are paid on the Company's Shares. Any fractional Restricted Share Units shall also be credited to a Participant's Restricted Deferred Compensation Account.

4.4 Restricted Share Unit Conversion. Immediately upon termination of Board service, and so prior to the commencement of any payout or distribution of any amounts hereunder, a Participant may make a one-time election to convert to Cash Units all or a portion of the balance of Restricted Share Units in such Participant's Restricted Deferred Compensation Account. Any Restricted Share Units so converted to Cash Units as a result of this one-time conversion election shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to such one-time conversion election.

4.5 Time of Payment.

(a) *Benefit Commencement Date for Restricted Deferred Compensation Account*. All payments of a Participant's Restricted Deferred Compensation Account not in pay status on January 1, 2005 shall be made on the first day of the calendar year following termination of Board service. Upon the death of a Director or former Director, prior to the final payment of all amounts credited to his or her Deferred Compensation Account, the balance of the Restricted Deferred Compensation Account shall be paid in accordance with Article V. Provided, however, in no event shall any payment or distribution be made within six (6) months of the Compensation being earned.

(b) *Acceleration of Benefit Commencement Date Prior to Payment*. At any time prior to the commencement of any payment or distribution of a Participant's Restricted Deferred Compensation Account, a Participant who will not attain age 72 on or before December 31, 2010, may request in writing to accelerate the receipt of all or a specified portion of such Restricted Deferred Compensation Account amounts to the first day of any calendar quarter; *provided, however*, that such date is at least six (6) months after the end of the quarter in which the Compensation is earned. Any such acceleration will be subject to a penalty equal to a five percent (5%) reduction in the balance of the Participant's Restricted Deferred Compensation Account, which shall be forfeited to the Company.

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(c) *Transition Election.* Notwithstanding Section 4.5(a), pursuant to Section 3.02 of IRS Notice 2006-79, as modified by Section 3.01(B)(1) of IRS Notice 2007-86, a Participant serving as a Director on or after December 6, 2007 who will attain age 72 on or before December 31, 2010, may elect, with respect to amounts in the Participant's Restricted Deferred Compensation Account that are not in pay status and that are not otherwise payable in 2007, to receive payment of such amounts on June 25, 2008, by filing a written notice of election with the Committee on the form(s) prescribed by the Committee on or before December 14, 2007. Notwithstanding the second sentence of Section 4.6, with respect to amounts to be distributed on June 25, 2008 pursuant to this transition election, (1) a Participant may elect, by filing a written notice of election with the Committee on the form(s) prescribed by the Committee on or before December 14, 2007, to have all or any portion of Share Units converted to Cash Units on January 2, 2008, with Share Units so converted valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any publication selected by the Committee for the period of ten (10) trading days immediately prior to January 1, 2008, and (2) Share Units not so converted shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to June 25, 2008.

4.6 Method of Payment. For all payments not in pay status on January 1, 2005, a Participant shall receive a lump sum payment in cash of all deferred compensation credited to such Participant's Restricted Deferred Compensation Account. Share Units credited to the Participant's Restricted Deferred Compensation Account shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to each new calendar year.

4.7 Change in Method of Payment Following Commencement of Distribution or Payment. After payment or distribution of amounts credited to the Participant's Restricted Deferred Compensation Account has commenced, the Participant may not change the period of time for which such amounts are payable. However, a Participant who was not a Director at any time after December 31, 2006, may convert installment payments to a lump sum distribution subject to a penalty equal to a five percent (5%) reduction in the balance of the Participant's Restricted Deferred Compensation Account, which shall be forfeited to the Company.

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## ARTICLE V

### Designation of Beneficiaries

5.1 Designation of Beneficiary. The Participant shall name one or more beneficiaries and contingent beneficiaries to receive any payments due Participant at the time of death. No designation of beneficiaries shall be valid unless in writing signed by the Participant, dated and filed with the Committee during the lifetime of such Participant. A subsequent beneficiary designation will cancel all beneficiary designations signed and filed earlier under this Plan, and such new beneficiary designation shall be applied to all amounts previously credited to the Participant's Deferred Compensation Account (or Restricted Deferred Compensation Account, as the case may be), as well as to any amounts to be credited to such Participant's Deferred Compensation Account (or Restricted Deferred Compensation Account, as the case may be), prospectively. In case of a failure of designation, or the death of the designated beneficiary without a designated successor, distribution shall be paid in one lump sum to the estate of the Participant.

5.2 Spouse's Interest. The interest in any amounts hereunder of a spouse who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

5.3 Survivor Benefits. Upon the Participant's death, any balances in the Participant's Deferred Compensation Account and Restricted Deferred Compensation Account shall be paid in a lump sum on the later of the first day of the calendar year following the Participant's death or the date that is thirty (30) days after the Participant's death.

## ARTICLE VI

### Source of Payments

All payments of deferred compensation shall be paid in cash from the general funds of the Company and the Company shall be under no obligation to segregate any assets in connection with the maintenance of a Deferred Compensation Account or Restricted Deferred Compensation Account, nor shall anything contained in this Plan nor any action taken pursuant to the Plan create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and Participant. Title to the beneficial ownership of any assets, whether cash or investments, which the Company may designate to pay the amount credited to the Deferred Compensation Account or a Restricted Deferred Compensation Account shall at all times remain in the Company and Participant shall not have any property interest whatsoever in any specific assets of the Company.

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Participant's interest in the Deferred Compensation Account or a Restricted Deferred Compensation Account shall be limited to the right to receive payments pursuant to the terms of this Plan and such rights to receive shall be no greater than the right of any other unsecured general creditor of the Company.

## ARTICLE VII

### Change in Control

#### 7.1 Effect of Change in Control on Payment.

(a) *Participants Not a Director After December 31, 2006 or Not Attaining Age 72 On or Before December 31, 2010.* In the case of a Participant who either (1) was not a Director at any time after December 31, 2006 or (2) will not attain age 72 on or before December 31, 2010, anything to the contrary in this Plan notwithstanding, at any time such Participant may make an election (a "Change in Control Election") to receive, in a single lump sum payment, upon the occurrence of a Change in Control, the balance of his or her Deferred Compensation Account and Restricted Deferred Compensation Account, as of the valuation date immediately preceding the Change in Control. Any Change in Control Election or revocation of an existing Change in Control Election shall be null and void if a Change in Control occurs within 12 months after it is made, and the Participant's most recent preceding Change in Control Election, if timely made and not revoked at least 12 months before the Change in Control, shall remain in force. Each such election or revocation shall be in writing and in conformity with such rules as may be prescribed by the Committee. If no Change in Control Election is in force upon the occurrence of a Change in Control, from the date of such Change in Control and for twelve (12) months thereafter, each such Participant, whether or not he or she is still an employee of the Company, shall have the right to withdraw, in a single lump-sum cash payment, an amount equal to ninety-five percent (95%) of the balance of each of his or her Deferred Compensation Account and Restricted Deferred Compensation Account (a "95% Withdrawal"), as of the valuation date immediately preceding the date of withdrawal; provided, however, that if this option is exercised, such Participant will forfeit to the Company the remaining five percent (5%) of the balance of each such account (as of the valuation date immediately preceding the date of withdrawal) from which the funds are withdrawn as a penalty. Payments pursuant to a 95% Withdrawal shall be made as soon as practicable, but no later than thirty (30) days after the Participant notifies the Committee in writing that he/she is exercising his/her right to undertake a 95% Withdrawal.

(b) *Participants Serving as Directors after December 31, 2006.* In the case of a Participant who was a Director at any time after December 31, 2006, and will attain age 72 on or before

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December 31, 2010, anything to the contrary in this Plan notwithstanding, at any time prior to the calendar year in which services are performed to which Compensation is attributable, such Participant may make an election (a "Change in Control Election") to receive, in a single lump sum payment, upon the occurrence of a Change in Control (provided that the Change in Control is also a change in control for purposes of IRC Section 409A, and the regulations issued thereunder), the balance of his or her Deferred Compensation Account and Restricted Deferred Compensation Account attributable to such Compensation, determined as of the valuation date immediately preceding the Change in Control.

7.2 Amendment on or after Change in Control. On or after a Change in Control, or before, but in connection with, a Change in Control, no action, including by way of example and not of limitation, the amendment, suspension or termination of the Plan, shall be taken which would adversely affect the rights of any Participant or the operation of this Article VII with respect to the balance in the Participant's Accounts immediately before such action.

7.3 Attorney's Fees. The Company shall pay all legal fees and related expenses incurred by or with respect to a Participant during his lifetime or within ten (10) years after his death in seeking to obtain or enforce any payment, benefit or right such Participant may be entitled to under the Plan after a Change in Control. Reimbursement shall be made on or before the close of the calendar year following the calendar year in which the expense was incurred. The amount of expenses eligible for reimbursement under this provision in one calendar year may not affect the amount of expenses eligible for reimbursement under this provision in any other calendar year. The Participant (or the Participant's representative) shall reimburse the Company for such fees and expenses at such time as a court of competent jurisdiction, or another independent third party having similar authority, determines that the Participant's (or the Participant's representative's) claim was frivolously brought without reasonable expectation of success on the merits thereof. For purposes of IRC Section 409A, this Section 7.3 shall be treated as a plan providing for reimbursement of expenses within the meaning of Treasury Regulation Section 1.409A-1(c)(2)(i)(E), and shall be separate from the remainder of the Plan.

#### **ARTICLE VIII Nonalienation of Benefits**

Participant shall not have the right to sell, assign, transfer or otherwise convey or encumber in whole or in part the right to receive any payment under this Plan except in accordance with Article V.

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**ARTICLE IX**  
**Acceptance of Terms**

The terms and conditions of this Plan shall be binding upon the heirs, beneficiaries and other successors in interest of Participant to the same extent that said terms and conditions are binding upon the Participant.

**ARTICLE X**  
**Administration of the Plan**

The Plan shall be administered by the Committee which may make such rules and regulations and establish such procedures for the administration of this Plan as it deems appropriate. In the event of any dispute or disagreements as to the interpretation of this Plan or of any rule, regulation or procedure or as to any questioned right or obligation arising from or related to this Plan, the decision of the Committee shall be final and binding upon all persons.

**ARTICLE XI**  
**Termination and Amendment**

The Plan may be terminated at any time by the Board of Directors of Sunoco, Inc. and may be amended at any time by the Committee provided, however, that no such amendment or termination shall adversely affect the rights of Participants or their beneficiaries with respect to amounts credited to Deferred Compensation Accounts or Restricted Deferred Compensation Accounts prior to such amendment or termination, without the written consent of the Participant.

**ARTICLE XII**  
**Construction**

In the case any one or more of the provisions contained in this Plan shall be invalid, illegal or unenforceable in any respect the remaining provisions shall be construed in order to effectuate the purposes hereof and the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

**ARTICLE XIII**  
**Governing Law**

This Plan shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania.

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**ARTICLE XIV**

**Cessation of Deferrals of Compensation and Crediting of Restricted Share under the Plan Effective January 1, 2005**

Notwithstanding any other provision of the Plan, no Director may elect to defer any portion of his or her Compensation payable by the Company to his or her Deferred Compensation Account after December 31, 2004 pursuant to Article III of the Plan, and no amounts may be credited by the Committee to a Director's Restricted Deferred Compensation Account under Article IV of the Plan after December 31, 2004. It is intended that all amounts deferred by or with respect to a Director after December 31, 2004 will be pursuant to the Directors' Deferred Compensation Plan II. It is further intended that with respect to all Participants who were not Directors at any time after December 31, 2006, and with respect to all Participants who were Directors at any time after December 31, 2006 and who will not attain age 72 on or before December 31, 2010, all amounts credited to such Participants' Deferred Compensation Accounts and Restricted Deferred Compensation Accounts under the Plan made before January 1, 2005 (including Dividend Equivalents and Interest Equivalents credited with respect to such deferrals) not be subject to IRC Section 409A, and no action shall be taken that would constitute a material modification to a benefit or right under the Plan as existing on October 3, 2004 with respect to such Participants, as set forth under Proposed Regulation 1.409A-6(a)(4), or such other guidance as may be applicable under IRC Section 409A.

**ARTICLE XV**

**Amounts Taxable under IRC Section 409A**

Upon determination that any amounts deferred under the Plan are included in the gross income of a Participant pursuant to IRC Section 409A, as amended, and the regulations issued thereunder, such amounts shall be distributed to the Participant.

**DIRECTORS' DEFERRED COMPENSATION PLAN II**

(Amended and Restated effective December 6, 2007)

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## ARTICLE I

### Definitions

As used in this Plan, the following terms shall have the meanings herein specified:

1.1 Business Combination—shall have the meaning provided herein at Section 1.3(c).

1.2 Cash Unit—shall mean the entry in a Deferred Compensation Account of a credit equal to One Dollar (\$1.00).

1.3 Change in Control—shall mean the occurrence of any of the following events:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act of 1934, as amended) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (1) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (2) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); *provided, however*, that, for purposes of this Section (a), the following acquisitions shall not constitute a Change in Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any company controlled by, controlling or under common control with the Company, or (D) any acquisition by any entity pursuant to a transaction that complies with Sections (c)(1), (c)(2) and (c)(3) of this definition;

(b) Individuals who, as of January 1, 2005, constitute the Board of Directors (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board of Directors; *provided, however*, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors;

(c) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each,

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a “Business Combination”), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (3) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board of Directors providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

1.4 Change in Control Election—shall have the meaning provided herein at Section 7.1

1.5 Committee—shall mean the Governance Committee of the Board of Directors of Sunoco, Inc.

1.6 Company—shall mean Sunoco, Inc., a Pennsylvania corporation. The term “Company” shall include any successor to Sunoco, Inc., any subsidiary or affiliate which has adopted the Plan, or a corporation succeeding to the business of Sunoco, Inc., or any subsidiary or affiliate by merger, consolidation, liquidation or purchase of assets or stock or similar transaction.

1.7 Compensation—shall mean those fees and retainers payable by the Company to a Participant in consideration for his or her service as a Director.

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1.8 Deferred Compensation Account—shall mean, with respect to any Participant, the total amount of the Company’s liability for payment of voluntary deferred compensation to the Participant under this Plan, including any accumulated interest and/or Dividend Equivalents.

1.9 Deferred Payment Election Form—shall mean and refer to the written election by a Participant, in the form prescribed by the Committee, to voluntarily defer the payment of all or a portion of such Participant’s Compensation under this Plan pursuant to Article II hereof.

1.10 Director—shall mean a member of the Board of Directors of Sunoco, Inc.

1.11 Dividend Equivalent—shall mean the entry in a Deferred Compensation Account or a Restricted Deferred Compensation Account of a dividend credit with respect to a Share Unit, each Dividend Equivalent being equal to the dividend paid from time to time on a Share.

1.12 Form of Continuing Deferral—shall mean and refer to the written commitment by a Participant, in the form prescribed by the Committee, to mandatorily defer the payment of all of the Yearly Credit awarded to such Participant under this Plan pursuant to Article IV hereof.

1.13 Incumbent Board—shall have the meaning provided herein at Section 1.3(b).

1.14 Interest Equivalent—shall mean the entry in a Deferred Compensation Account of an interest credit with respect to a Cash Unit, compounded on the basis of the balance in the Participant’s Deferred Compensation Account, applying the interest factor approved by the Committee each year for such purpose.

1.15 Outstanding Company Common Stock—shall have the meaning provided herein at Section 1.3(a).

1.16 Outstanding Company Voting Securities—shall have the meaning provided herein at Section 1.3(a).

1.17 Participant—shall mean a Director who has elected to defer the receipt of compensation or a Director who is required to defer the receipt of the Restricted Share Units in accordance with the terms of this Plan.

1.18 Person—shall have the meaning provided herein at Section 1.3(a).

1.19 Plan—shall mean this Directors’ Deferred Compensation Plan II, as it may be amended from time to time, and shall be effective for deferrals of Compensation pursuant to Article III and crediting of Restricted Share Units pursuant to Article IV, for periods beginning after December 31, 2004.

1.20 Restricted Deferred Compensation Account—shall mean, with respect to any Participant, the total amount of the Company’s liability for payment of Restricted Share Units to the Participant under this Plan.

1.21 Restricted Share Unit—shall mean the entry in a Restricted Deferred Compensation Account of a credit equal to one Share that will be restricted until death, retirement or termination of Board service.

1.22 Share—shall mean a share of the Company's authorized voting Common Stock (\$1.00 par value per share) and any share or shares of stock of the Company hereafter issued or issuable in substitution or exchange for each such share.

1.23 Share Unit—shall mean the entry in a Deferred Compensation Account of a credit equal to one Share.

## ARTICLE II

### Voluntary Deferral of Directors' Compensation

2.1 Election to Defer. Prior to the beginning of each calendar year beginning after December 31, 2004, a Participant may elect to defer all or a portion of the Compensation attributable to services to be performed by the Participant in the next succeeding calendar year, by filing a written notice of election with the Committee on the form(s) prescribed by the Committee. Any such deferral election shall apply only to Compensation attributable to services to be performed on or after the first day of the calendar year following the calendar year in which the election is received by the Committee. An election to defer, made in accordance with this Article II shall be irrevocable as of December 31 of the year preceding the calendar year in which the Participant earns the Compensation. All elections made by Directors on or before December 31, 2004 with respect to Compensation earned in calendar year 2005 shall be treated as made under the Plan (and not under the Directors' Deferred Compensation Plan I), and such elections to the extent inconsistent with the terms of the Plan, shall be limited by and administered in accordance with, the terms of the Plan. A separate election form shall be filed for each calendar year. The deferral election form(s) also will permit the Participant to specify:

- (a) the percentage of Compensation to be deferred;
- (b) the form of deferral, being either Cash Units, Share Units, or a combination of the two and the percentage allocations of such; and
- (c) the designation of a beneficiary as set forth in Article V.

2.2 Amount of Deferral The amount of Compensation to be deferred shall be designated by the Participant as a percentage of the Director's Compensation in multiples of five percent (5%) but shall not be less than ten percent (10%).

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2.3 Time of Election An election to defer must be filed and received by the Committee by the end of the calendar year preceding the calendar year in which the services are performed to which the Compensation is attributable. A new Director may also elect to defer Compensation attributable to his or her first year of Board service prior to the commencement of his or her term in office, and such election shall be irrevocable as of the date immediately preceding such Director's commencement of his or her term in office.

### ARTICLE III

#### Voluntary Deferred Compensation Accounts

3.1 Creation of Voluntary Deferred Compensation Accounts. Compensation deferred hereunder shall be credited to a Deferred Compensation Account established by the Company for each Participant. The Participant must elect to convert the deferred compensation to either Cash Units or Share Units, which shall be credited to a Participant's Deferred Compensation Account as set forth in the Plan.

3.2 Crediting Share Units. Share Units shall be credited to a Participant's Deferred Compensation Account at the time the Compensation would otherwise have been paid had no election to defer been made. The number of Share Units to be credited to the Deferred Compensation Account shall be determined by dividing the Compensation by the average closing price for Shares as published in the Wall Street Journal under the caption "New York Stock Exchange Composite Transactions" for the period of ten (10) trading days immediately prior to the day on which the Compensation would otherwise have been paid. Any fractional Share Units shall also be credited to a Participant's Deferred Compensation Account. The number of Share Units in a Deferred Compensation Account shall be appropriately adjusted by the Committee in the event of changes in the Company's outstanding common stock by reason of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares or the like, and such adjustments shall be conclusive. Share Units shall not entitle any person to the rights of a stockholder.

3.3 Crediting Cash Units. Cash Units shall be credited to a Participant's Deferred Compensation Account at the time Compensation would otherwise have been paid had no election to defer been made.

3.4 Crediting Dividend Equivalents. For Share Units, the Company shall credit the Participant's Deferred Compensation Account with Dividend Equivalents being equal to the dividends declared on the Company's Shares. The crediting shall occur as of the date on which said dividends are paid. The number of Share Units to be credited to the Deferred Compensation

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Account shall be calculated by dividing the Dividend Equivalents by the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to the day on which the dividends are paid on the Company's Shares. Any fractional Share Units shall also be credited to a Participant's Deferred Compensation Account.

3.5 Crediting Interest Equivalents. For Cash Units credited to their Deferred Compensation Accounts, the Company shall credit the Participant's Deferred Compensation Account on a quarterly basis with an Interest Equivalent.

3.6 Share Unit Conversion. Immediately upon termination of Board service, and so prior to the commencement of any payout or distribution of any amounts hereunder, a Participant may make a one-time election to convert to Cash Units all or a portion of the balance of Share Units in such Participant's Deferred Compensation Account. Any Share Units so converted to Cash Units as a result of this one-time conversion election shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to such one-time conversion election.

3.7 Time of Payment.

(a) *Benefit Commencement Date*. Except as provided in Article VII hereof, all payments of a Participant's Deferred Compensation Account shall be made on the first day of the calendar year following the date of the Participant's separation from Board service. Upon the death of a Director or former Director prior to the final payment of all amounts credited to his or her Deferred Compensation Account, the balance of his or her Deferred Compensation Account shall be paid in accordance with Article V, on the later of the first day of the calendar year following the year of death, or the date that is thirty (30) days after the Participant's death.

Notwithstanding the foregoing, and except as provided in Article VII, in no event shall any payment or distribution be made within six (6) months of the Compensation being earned or awarded.

(b) *Transition Election*. Notwithstanding Section 3.7(a), pursuant to Section 3.02 of IRS Notice 2006-79, as modified by Section 3.01(B)(1) of IRS Notice 2007-86, a Participant who will attain age 72 on or before December 31, 2010, may elect, with respect to amounts in the Participant's Deferred Compensation Account that are not otherwise payable in 2007, to receive payment of such amounts on June 25, 2008, by filing a written notice of election with the Committee on the form(s) prescribed by the Committee on or before December 14, 2007.

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Notwithstanding the second sentence of Section 3.8, with respect to amounts to be distributed on June 25, 2008 pursuant to this transition election, (1) a Participant may elect, by filing a written notice of election with the Committee on the form(s) prescribed by the Committee on or before December 14, 2007, to have all or any portion of Share Units converted to Cash Units on January 2, 2008, with Share Units so converted valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to January 1, 2008, and (2) Share Units not so converted shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to June 25, 2008.

3.8 Method of Payment. A Participant in this portion of the Plan shall receive payment in a lump sum in cash all deferred compensation credited to such Participant's Deferred Compensation Account. Share Units credited to the Participant's Deferred Compensation Account shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to each new calendar year.

## ARTICLE IV

### Restricted Deferred Compensation Accounts

4.1 Creation of Restricted Deferred Compensation Accounts. Compensation deferred under this Article IV shall be credited to a Restricted Deferred Compensation Account established by the Company for each Participant.

4.2 Crediting Share Units. If the Committee elects to do so, prior to the year for which the amount will be credited, for each year beginning after December 31, 2004, in conjunction with either the Participant's election or re-election to the Board, a yearly dollar amount ("Yearly Credit") will be credited to a Participant's Restricted Deferred Compensation Account in the form of Restricted Share Units. The number of Restricted Share Units credited to a Participant's Restricted Deferred Compensation Account shall be determined by dividing the Yearly Credit by the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to the Company's annual meeting. Any fractional Restricted Share Units shall also be credited to a Participant's Restricted Deferred Compensation Account. The number of Restricted Share Units in a Restricted Deferred

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Compensation Account shall be appropriately adjusted by the Committee in the event of changes in the Company's outstanding common stock by reason of a stock dividend or distribution, recapitalization, merger, consolidation, split-up, combination, exchange of shares or the like, and such adjustments shall be conclusive. Restricted Share Units shall not entitle any person to the rights of a stockholder.

4.3 Crediting Dividend Equivalents. The Company shall credit the Participant's Restricted Deferred Compensation Account with Dividend Equivalents being equal to the dividends declared on the Company's Shares. The crediting shall occur as of the date on which said dividends are paid. The number of Restricted Share Units to be credited to the Restricted Deferred Compensation Account shall be calculated by dividing the Dividend Equivalents by the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to the day on which the dividends are paid on the Company's Shares. Any fractional Restricted Share Units shall also be credited to a Participant's Restricted Deferred Compensation Account.

4.4 Restricted Share Unit Conversion. Immediately upon termination of Board service, and so prior to the commencement of any payout or distribution of any amounts hereunder, a Participant may make a one-time election to convert to Cash Units all or a portion of the balance of Restricted Share Units in such Participant's Restricted Deferred Compensation Account. Any Restricted Share Units so converted to Cash Units as a result of this one-time conversion election shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to such one-time conversion election.

4.5 Time of Payment.

(a) *Benefit Commencement Date*. Except as provided in Article VII hereof, all payments of a Participant's Deferred Compensation Account shall be made on the first day of the calendar year following the date of the Participant's separation from Board service. Upon the death of a Director or former Director prior to the final payment of all amounts credited to his or her Deferred Compensation Account, the balance of the Deferred Compensation Account shall be paid in accordance with Article V, on the later of the first day of the calendar year following the year of death or the date that is thirty (30) days after the Participant's death.

Notwithstanding the foregoing, in no event, and except as provided in Article VII, in no event shall any payment or distribution be made within the six (6) months of the Compensation being earned or awarded.

(b) *Transition Election.* Notwithstanding Section 4.5(a), pursuant to Section 3.02 of IRS Notice 2006-79, as modified by Section 3.01(B)(1) of IRS Notice 2007-86, a Participant who will attain age 72 on or before December 31, 2010, may elect, with respect to amounts in the Participant's Restricted Deferred Compensation Account that are not otherwise payable in 2007, to receive payment of such amounts on June 25, 2008, by filing a written notice of election with the Committee on the form(s) prescribed by the Committee on or before December 14, 2007. Notwithstanding the second sentence of Section 4.6, with respect to amounts to be distributed on June 25, 2008 pursuant to this transition election, (1) a Participant may elect, by filing a written notice of election with the Committee on the form(s) prescribed by the Committee on or before December 14, 2007, to have all or any portion of Share Units converted to Cash Units on January 2, 2008, with Share Units so converted valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to January 1, 2008, and (2) Share Units not so converted shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to June 25, 2008.

4.6 Method of Payment. Participant shall receive payment in a lump sum in cash all deferred compensation credited to the Participant's Restricted Deferred Compensation Account. Share Units credited to the Participant's Restricted Deferred Compensation Account shall be valued at the average closing price for Shares as published in the Wall Street Journal (under the caption "New York Stock Exchange Composite Transactions") or any other publication selected by the Committee for the period of ten (10) trading days immediately prior to each new calendar year.

## ARTICLE V

### Designation of Beneficiaries

5.1 Designation of Beneficiary. The Participant shall name one or more beneficiaries and contingent beneficiaries to receive any payments due Participant at the time of death. No designation of beneficiaries shall be valid unless in writing signed by the Participant, dated and filed with the Committee during the lifetime of such Participant. A subsequent beneficiary designation will cancel all beneficiary designations signed and filed earlier under this Plan, and such new beneficiary designation shall be applied to all amounts previously credited to the

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Participant's Deferred Compensation Account (or Restricted Deferred Compensation Account, as the case may be), as well as to any amounts to be credited to such Participant's Deferred Compensation Account (or Restricted Deferred Compensation Account, as the case may be), prospectively. In case of a failure of designation, or the death of the designated beneficiary without a designated successor, distribution shall be paid in one lump sum to the estate of the Participant.

5.2 Spouse's Interest. The interest in any amounts hereunder of a spouse who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

5.3 Survivor Benefits. Upon the Participant's death, any balances in the Participant's Deferred Compensation Account and Restricted Deferred Compensation Account shall be paid in a lump sum to the designated beneficiary(ies).

## **ARTICLE VI**

### **Source of Payments**

All payments of deferred compensation shall be paid in cash from the general funds of the Company and the Company shall be under no obligation to segregate any assets in connection with the maintenance of a Deferred Compensation Account or Restricted Deferred Compensation Account, nor shall anything contained in this Plan nor any action taken pursuant to the Plan create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and Participant. Title to the beneficial ownership of any assets, whether cash or investments, which the Company may designate to pay the amount credited to the Deferred Compensation Account or a Restricted Deferred Compensation Account shall at all times remain in the Company and Participant shall not have any property interest whatsoever in any specific assets of the Company. Participant's interest in the Deferred Compensation Account or a Restricted Deferred Compensation Account shall be limited to the right to receive payments pursuant to the terms of this Plan and such rights to receive shall be no greater than the right of any other unsecured general creditor of the Company.

## **ARTICLE VII**

### **Change in Control**

7.1 Effect of Change in Control on Payment. Upon the occurrence of a Change in Control (provided that the Change in Control is also a change in control for purposes of IRC Section

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409A, and the regulations issued thereunder), the balance of a Participant's Deferred Compensation Account and Restricted Deferred Compensation Account attributable to Compensation for services performed in calendar years beginning after December 31, 2007, determined as of the valuation date immediately preceding the Change in Control, shall be distributed to the Participant in a single lump sum payment.

7.2 Amendment on or after Change in Control. On or after a Change in Control, or before, but in connection with, a Change in Control, no action, including by way of example and not of limitation, the amendment, suspension or termination of the Plan, shall be taken which would adversely affect the rights of any Participant or the operation of this Article VII with respect to the balance in the Participant's Accounts immediately before such action.

7.3 Attorney's Fees. The Company shall pay all legal fees and related expenses incurred by or with respect to a Participant during his lifetime or within ten (10) years after his death in seeking to obtain or enforce any payment, benefit or right such Participant may be entitled to under the Plan after a Change in Control. Reimbursement shall be made on or before the close of the calendar year following the calendar year in which the expense was incurred. The amount of expenses eligible for reimbursement under this provision in one calendar year may not affect the amount of expenses eligible for reimbursement under this provision in any other calendar year. The Participant (or the Participant's representative) shall reimburse the Company for such fees and expenses at such time as a court of competent jurisdiction, or another independent third party having similar authority, determines that the Participant's (or the Participant's representative's) claim was frivolously brought without reasonable expectation of success on the merits thereof.

## ARTICLE VIII

### Amounts Taxable under IRC Section 409A

Upon a determination that any amounts deferred under the Plan are included in the gross income of a Participant pursuant to IRC Section 409A, as amended, and the regulations issued thereunder, such amounts shall be distributed to the Participant.

## ARTICLE IX

### Nonalienation of Benefits

Participant shall not have the right to sell, assign, transfer or otherwise convey or encumber in whole or in part the right to receive any payment under this Plan except in accordance with Article V.

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**ARTICLE X**  
**Acceptance of Terms**

The terms and conditions of this Plan shall be binding upon the heirs, beneficiaries and other successors in interest of Participant to the same extent that said terms and conditions are binding upon the Participant.

**ARTICLE XI**  
**Administration of the Plan**

The Plan shall be administered by the Committee, which may make such rules and regulations and establish such procedures for the administration of this Plan as it deems appropriate. In the event of any dispute or disagreements as to the interpretation of this Plan or of any rule, regulation or procedure or as to any questioned right or obligation arising from or related to this Plan, the decision of the Committee shall be final and binding upon all persons.

**ARTICLE XII**  
**Termination and Amendment**

The Plan may be terminated at any time by the Board of Directors of Sunoco, Inc. and may be amended at any time by the Committee provided, however, that no such amendment or termination shall adversely affect the rights of Participants or their beneficiaries with respect to amounts credited to Deferred Compensation Accounts or Restricted Deferred Compensation Accounts prior to such amendment or termination, without the written consent of the Participant.

**ARTICLE XIII**  
**Construction**

In the case any one or more of the provisions contained in this Plan shall be invalid, illegal or unenforceable in any respect the remaining provisions shall be construed in order to effectuate the purposes hereof and the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

**ARTICLE XIV**  
**Governing Law**

This Plan shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania.

Schedule to the Form of  
Amendment to  
Amended and Restated Indemnification Agreement

The Amendment to Amended and Restated Indemnification Agreements between Sunoco, Inc. and the directors, executive officers, trustees, fiduciaries, employees or agents named below effective December 31, 2007 are identical in all material respects.

<b>Employee</b>	<b>Date of Amended and Restated Indemnification Agreement</b>
Michael J. Colavita	September 2, 2004
John F. Carroll	March 4, 2004
Terence P. Delaney	March 4, 2004
Michael H. R. Dingus	March 4, 2004
John G. Drosdick	March 4, 2004
Bruce G. Fischer	March 4, 2004
Michael J. Hennigan	February 2, 2006
Thomas W. Hofmann	March 4, 2004
Vincent J. Kelley	February 2, 2006
Joseph P. Krott	March 4, 2004
Michael S. Kuritzkes	March 4, 2004
Michael J. McGoldrick	March 4, 2004
Ann C. Mulé	March 4, 2004
Paul A. Mulholland	March 4, 2004
Rolf D. Naku	March 4, 2004
Marie A. Natoli	March 3, 2006
Robert W. Owens	March 4, 2004
Alan J. Rothman	March 4, 2004
Charles K. Valutas	March 4, 2004
<b>Director</b>	<b>Date of Amended and Restated Indemnification Agreement</b>
Robert J. Darnall	March 4, 2004
Ursula O. Fairbairn	March 4, 2004
Thomas P. Gerrity	March 4, 2004
Rosemarie B. Greco	March 4, 2004
John P. Jones, III	September 8, 2006
James G. Kaiser	March 4, 2004
R. Anderson Pew	March 4, 2004
G. Jackson Ratcliffe	March 4, 2004
John W. Rowe	March 4, 2004
John K. Wulff	March 8, 2004

STATEMENT RE COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES(a)  
Sunoco, Inc. and Subsidiaries

(Millions of Dollars)

	<b>For the Three Months Ended March 31, 2008 (UNAUDITED)</b>
<b>Fixed Charges:</b>	
Consolidated interest cost and debt expense	\$ 28
Interest allocable to rental expense(b)	18
<b>Total</b>	<b>\$ 46</b>
<b>Earnings:</b>	
Consolidated loss before income tax benefit	\$ (99)
Minority interest in net income of subsidiaries having fixed charges	17
Proportionate share of income tax expense of 50 percent-owned-but-not-controlled investees	2
Equity income of less-than-50-percent-owned-but-not-controlled investees	(3)
Dividends received from less-than-50-percent-owned-but-not-controlled investees	3
Fixed charges	46
Interest capitalized	(9)
Amortization of previously capitalized interest	1
<b>Total</b>	<b>\$ (42)</b>
<b>Ratio of Earnings to Fixed Charges</b>	<b>N/A (c)</b>

- (a) The consolidated financial statements of Sunoco, Inc. and subsidiaries contain the accounts of all entities that are controlled and variable interest entities for which the Company is the primary beneficiary. Corporate joint ventures and other investees over which the Company has the ability to exercise significant influence that are not consolidated are accounted for by the equity method.
- (b) Represents one-third of total operating lease rental expense which is that portion deemed to be interest.
- (c) Earnings are inadequate to cover fixed charges by \$88 million.

Certification  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John G. Drosdick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sunoco, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2008

/s/ John G. Drosdick  
John G. Drosdick  
Chairman, Chief Executive  
Officer and President

Certification  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas W. Hofmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sunoco, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2008

/s/ Thomas W. Hofmann

Thomas W. Hofmann  
Senior Vice President and  
Chief Financial Officer

Certification  
of  
Periodic Financial Report  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, John G. Drosdick, Chairman, Chief Executive Officer and President of Sunoco, Inc., hereby certify that the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of Sunoco, Inc.

Date: April 30, 2008

/s/ John G. Drosdick

John G. Drosdick  
Chairman, Chief Executive  
Officer and President

Certification  
of  
Periodic Financial Report  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Thomas W. Hofmann, Senior Vice President and Chief Financial Officer of Sunoco, Inc., hereby certify that the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of Sunoco, Inc.

Date: April 30, 2008

/s/ Thomas W. Hofmann

Thomas W. Hofmann  
Senior Vice President and  
Chief Financial Officer

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