SUNOCO INC
Form DEF 14A
March 17, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY(AS PERMITTED BY RULE 14A-6(E)(2))

x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

Sunoco, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

Table of Contents

Sunoco, Inc.

1735 Market Street,

Suite LL

Philadelphia, PA 19103-7583

NOTICE OF ANNUAL MEETING

Dear Sunoco Shareholder:

On Thursday, May 1, 2008, Sunoco, Inc. will hold its 2008 Annual Meeting of Shareholders at the Moore College of Art and Design, Stewart Auditorium, 20th Street and the Parkway, Philadelphia, PA. The meeting will begin at 9:30 a.m.

Only shareholders who owned stock at the close of business on February 8, 2008 can vote at this meeting or any adjournments that may take place. At the meeting we will consider:

1. Election of a Board of Directors;
2. Approval of the Sunoco, Inc. Long-Term Performance Enhancement Plan II;
3. Ratification of the appointment of our independent registered public accounting firm for the fiscal year 2008; and
4. Any other business properly presented at the meeting.

At the meeting we will also report on Sunoco s 2007 business results and other matters of interest to shareholders.

Your Board of Directors recommends that you vote in favor of proposals 1 through 3 above, which are further described in this proxy statement. This proxy statement also outlines the corporate governance practices at Sunoco, discusses our compensation practices and philosophy, and describes the Audit Committee s recommendation to the Board regarding our 2007 financial statements. We encourage you to read these materials carefully.

Whether or not you expect to attend the meeting, we urge you to vote promptly.

The approximate date of mailing for this proxy statement and card as well as a copy of Sunoco s 2007 Annual Report is March 17, 2008. For further information about Sunoco, please visit our web site at *www.SunocoInc.com*.

By Order of the Board of Directors,

ANN C. MULÉ

CHIEF GOVERNANCE OFFICER, ASSISTANT GENERAL COUNSEL

AND CORPORATE SECRETARY

MARCH 17, 2008

Important notice regarding availability of proxy materials

for Sunoco s 2008 Annual Meeting of Shareholders

to be held on May 1, 2008.

The proxy statement and 2007 annual report to

shareholders are available at www.SunocoInc.com/site/proxymaterials

Table of Contents

TABLE OF CONTENTS

PROXY STATEMENT	
Questions and Answers	4
1. Who is entitled to vote?	4
2. How do I cast my vote?	4
3. How do I revoke or change my vote?	5
4. Who will count the vote?	5
5. Is my vote confidential?	5
6. What does it mean if I get more than one proxy or vote instruction card?	5
7. How many shares can vote?	5
8. How is Sunoco common stock in SunCAP voted?	6
9. What is a quorum ? What are the voting requirements to elect directors and to approve any other proposals discussed in the proxy statement?	6
10. Who can attend the Annual Meeting and how do I get a ticket?	7
11. How will voting on any other business be conducted?	7
12. Can I, in the future, receive my proxy statement and annual report over the Internet?	7
13. If I am receiving multiple copies of the proxy statement and the annual report at my residence, what do I need to do to receive only one copy?	8
14. What should I do if I would like additional copies of these materials?	8
15. Does any shareholder own 5% or more of Sunoco s common stock?	9
16. When are the shareholder proposals for the 2009 Annual Meeting due?	9
17. What is Sunoco s process for nominating director candidates?	10
18. Can a shareholder nominate someone to be a director of Sunoco?	11
19. How can shareholders communicate with Sunoco s directors?	11
20. How much will this proxy solicitation cost?	12
21. Who is soliciting my vote?	12
Section 16(a) Beneficial Ownership Reporting Compliance	12
GOVERNANCE OF THE COMPANY	
Corporate Governance Guidelines	13
Other Governance Matters	24
Director Independence	24
Certain Relationships and Related Transactions	24
Communications with Directors	25
Annual Meetings	25

TABLE OF CONTENTS

Code of Business Conduct and Ethics	26
Board and Committees	27
Audit Committee Financial Expert	27
Directors and Officers Ownership of Sunoco Stock	28
Equity Compensation Plan Information	31
PROPOSALS ON WHICH YOU MAY VOTE	
Item 1. Election of Directors	32
Nominees for the Board of Directors	32
Item 2. Approval of the Sunoco, Inc. Long-Term Performance Enhancement Plan II	36
Item 3. Ratification of the Appointment of Ernst & Young LLP as Independent Registered Public Accounting Firm for the Fiscal Year 2008	40
Auditor Fees	40
AUDIT COMMITTEE REPORT	42
EXECUTIVE COMPENSATION	
Compensation Committee Report	43
Compensation Committee Interlocks and Insider Participation	43
Compensation Discussion and Analysis	44
Corporate Governance	64
Summary Compensation Table	66
Grants of Plan-Based Awards in 2007	71
Outstanding Equity Awards at Fiscal Year-End 2007	74
Option Exercises and Stock Vested in 2007	76
Pension Benefits	77
Nonqualified Deferred Compensation in 2007	82
Other Potential Post-Employment Payments	84
DIRECTORS COMPENSATION	
Director Compensation in 2007	91
Directors & Officers Indemnification Agreements	95
EXHIBITS	
Exhibit A: Sunoco, Inc. Long-Term Performance Enhancement Plan II (amended and restated effective November 1, 2007)	EX-1

Table of Contents

PROXY STATEMENT

Questions and Answers

1. Q: Who is entitled to vote?

A: Shareholders as of the close of business on the record date, February 8, 2008, are entitled to vote at the Annual Meeting.

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2. Q: How do I cast my vote?

A: There are four different ways you may cast your vote this year. You may vote by:

(1) *telephone,* using the toll-free number listed on each proxy card (if you are a shareholder of record) or vote instruction card (if your shares are held by a bank, broker or other nominee);
(2) *the Internet,* at the address provided on each proxy or vote instruction card;
(3) *marking, signing, dating,* and *mailing* each proxy or vote instruction card and returning it in the envelope provided. If you return your signed proxy or vote instruction card but do not mark the boxes showing how you wish to vote, your shares will be voted FOR proposals 1 through 3; or
(4) *attending the meeting* (if your shares are registered directly in your name on Sunoco s books and not held through a broker, bank or other nominee).

For voting procedures for shares held in the Sunoco, Inc. Capital Accumulation Plan, or SunCAP, Sunoco s 401(k) Plan for employees, see Question 8.

If you are the registered shareholder (that is, if you hold your stock in your name), you can vote by telephone or electronically through the Internet by following the instructions provided on the proxy card.

If your shares are held in street name (that is, they are held in the name of a broker, bank or other nominee), you will receive instructions with your materials that you must follow in order to have your shares voted. Please review your proxy or vote instruction card to determine whether you will be able to vote by telephone or electronically.

The deadline for voting by telephone or electronically through the Internet is 11:59 p.m. Eastern U.S. Time, April 30, 2008. Voting instructions from SunCAP participants must be received no later than 9:30 a.m. Eastern U.S. Time on April 29, 2008.

Table of Contents

3. **Q:** **How do I revoke or change my vote?**
A: You may revoke or change your vote by:

(1) notifying Sunoco s Chief Governance Officer, Assistant General Counsel and Corporate Secretary or Sunoco s designated agent, IVS Associates, Inc., 1925 Lovering Avenue, Wilmington, DE 19806, in writing at any time before the meeting;
(2) submitting a later-dated proxy by mail, telephone, or via the Internet; or
(3) voting in person at the meeting (if your shares are registered directly in your name on Sunoco s books and not held through a broker, bank, or other nominee).

The latest-dated, timely, properly completed proxy that you submit, whether by mail, telephone or the Internet, will count as your vote. If a vote has been recorded for your shares and you submit a proxy card that is not properly signed or dated, the previously recorded vote will stand.

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4. **Q:** **Who will count the vote?**
A: Representatives of IVS Associates, Inc., an independent tabulator, will count the vote and act as the judge of election.

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5. **Q:** **Is my vote confidential?**
A: Proxy cards, vote instruction cards, telephone and Internet voting reports, ballots and voting tabulations that identify individual shareholders are returned directly to IVS Associates, Inc. and are handled in a manner designed to protect your voting privacy. As a registered shareholder, SunCAP participant, or Non-Objecting Beneficial Owner, your vote will not be disclosed to Sunoco except: (1) as needed to permit IVS Associates, Inc. to tabulate and certify the vote; (2) as required by law; or (3) in limited circumstances such as a proxy contest in opposition to the Board. Additionally, all comments written on the proxy or vote instruction card or elsewhere will be forwarded to Sunoco, but your identity will be kept confidential unless you specifically ask that your name be disclosed.

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6. **Q:** **What does it mean if I get more than one proxy or vote instruction card?**
A: If your shares are registered in more than one name or in more than one account, you will receive more than one card. Please complete and return all of the proxy or vote instruction cards you receive (or vote by telephone or the Internet all of the shares on all of the proxy or vote instruction cards received) to ensure that all of your shares are voted.

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7. **Q:** **How many shares can vote?**
A: As of the February 8, 2008 record date, 117,607,729 shares of Sunoco common stock were issued and outstanding. Every shareholder of common stock is entitled to one vote for each share held as of the record date.

Table of Contents

8. **Q: How is Sunoco common stock in SunCAP voted?**

A: If your shares of Sunoco common stock are held in custody for your account by the Vanguard Fiduciary Trust Company (Vanguard), as trustee for SunCAP, you may vote by instructing Vanguard how to vote your shares pursuant to the vote instruction card that is mailed to you with this proxy statement. If you do not provide voting instructions, or provide unclear voting instructions, then Vanguard will vote the shares in your SunCAP account in proportion to the way the shares of Sunoco common stock are voted by the other SunCAP participants. Voting instructions from SunCAP participants are maintained in the strictest confidence and will not be disclosed to Sunoco except as set forth in those limited circumstances discussed in the answer to Question 5, which apply to all shareholders.

9. **Q: What is a quorum ? What are the voting requirements to elect directors and to approve any other proposals discussed in the proxy statement?**

A: A quorum is the presence of the holders of a majority of the outstanding shares entitled to vote either in person or represented by proxy at the meeting. There must be a quorum for the meeting to be held. If you submit a timely, properly executed proxy or vote instruction card, then you will be considered part of the quorum, even if you abstain from voting.

Abstentions: Abstentions are not counted in the tally of votes FOR or AGAINST a proposal. A WITHHELD vote is the same as an abstention. Abstentions and withheld votes are counted as shares present and entitled to be voted.

Broker Non-Votes: Broker non-votes occur when shares held by a broker are not voted with respect to a proposal because (1) the broker has not received voting instructions from the shareholder, and (2) the broker lacks the authority to vote the shares at his/her discretion. Broker non-votes will not affect the outcome of any of the matters being voted upon at this meeting, and they are not counted as shares present and entitled to be voted with respect to the matter on which the broker has not expressly voted.

You may vote for or withheld with respect to the election of directors. Sunoco s Bylaws set forth the procedures if a director-nominee does not receive at least a majority of votes cast at a meeting for election of directors where a quorum is present. In an uncontested election, any incumbent nominee for director who does not receive at least a majority of the votes cast must submit his or her resignation to the Board. Any nominee who is not an incumbent and who does not receive at least a majority of the votes cast is deemed to have been elected and to have immediately resigned. The Governance Committee will evaluate the tendered resignation and make a recommendation to the Board. The Board will act on the tendered resignation and publicly disclose its decision within 90 days after the certification of the election results. If the incumbent director s resignation is not accepted by the Board, such director will continue to serve: (i) until the next annual meeting; (ii) until his successor is duly elected; or (iii) his earlier resignation or removal. If the director s resignation is accepted by the Board, the Board may fill the resulting vacancy pursuant to Sunoco s Bylaws. Full details of these procedures are set forth in Sunoco s Bylaws. Proposals 2 and 3 must receive more than 50% of the shares voting at the meeting to be adopted.

Table of Contents

10. Q: Who can attend the Annual Meeting and how do I get a ticket?

A: All shareholders who owned shares on February 8, 2008 may attend. Just check the box on your proxy or vote instruction card, or as indicated on the Internet site, or press the appropriate key if voting by telephone. If your shares are held through a broker and you would like to attend, please write to the Chief Governance Officer, Assistant General Counsel and Corporate Secretary, Sunoco, Inc., 1735 Market Street, Suite LL, Philadelphia, PA 19103-7583. Include a copy of your brokerage account statement or an omnibus proxy (which you can get from your broker), and we will send you a ticket.

11. Q: How will voting on any other business be conducted?

A: Although we do not know of any business to be considered at the 2008 Annual Meeting other than the proposals described in this proxy statement, if any other business is presented at the Annual Meeting, your signed proxy or vote instruction card, or your authenticated Internet or telephone proxy, gives authority to John G. Drosdick, Sunoco s Chairman, Chief Executive Officer and President, and Ann C. Mulé, Sunoco s Chief Governance Officer, Assistant General Counsel and Corporate Secretary, to vote on such matters at their discretion.

12. Q: Can I, in the future, receive my proxy statement and annual report over the Internet?

A: Yes. You can receive this information over the Internet.

(1) *If you are a registered shareholder:* You can agree to access the proxy statement and annual report on the Internet in the space provided on your proxy or vote instruction card, on the Internet site, or by telephone. You will be notified when the materials are available on the designated web site. Your choice of electronic delivery will remain in effect until you notify us otherwise by sending a written request to the Chief Governance Officer, Assistant General Counsel and Corporate Secretary, Sunoco, Inc., 1735 Market Street, Suite LL, Philadelphia, PA 19103-7583.

(2) *If you hold shares through a broker, bank or other nominee:* Please refer to the information provided by that entity in the proxy materials mailed to you; or contact your broker or bank and indicate your preference to access the documents on the Internet.

Table of Contents

13. Q: If I am receiving multiple copies of the proxy statement and annual report at my residence, what do I need to do to receive only one copy?

A: With your consent and the consent of other shareholders in your household, we may send one set of the proxy statement and annual report to a household where two or more Sunoco shareholders reside if we believe they are members of the same family. Each consenting shareholder would continue to receive a separate notice of annual meeting and proxy card. This procedure, referred to as householding, would reduce the volume of duplicate information you receive, and would also reduce the Company s printing and mailing costs. If you are an eligible shareholder and would like to receive only one copy of the proxy statement and annual report, please indicate that on your proxy or vote instruction card, on the Internet site, or by telephone; or contact the Company by sending a written request to the Chief Governance Officer, Assistant General Counsel and Corporate Secretary, Sunoco, Inc., 1735 Market Street, Suite LL, Philadelphia, PA 19103-7583 or by calling 215-977-6440. Your consent will remain in effect until Sunoco receives contrary instructions from you or other shareholders in your household. Should you revoke your consent, Sunoco will begin sending individual copies of the proxy statement and annual report to you within thirty (30) days of your revocation. Also, if you would like to obtain a separate copy of the proxy statement or annual report, you may direct your request to the address above, or you may call 215-977-6440. If you hold your shares in street name, please contact your broker, bank or other nominee.

14. Q: I have Sunoco shares that are held in street name, as do others in my household. We received only one copy of the proxy statement and annual report. What should I do if I would like additional copies of these materials?

A: Some brokerage firms have instituted householding in connection with the delivery of annual reports and proxy statements (see the answer to Question 13). If your family holds Sunoco shares in multiple brokerage accounts, you may have previously received householding notification from your broker, bank or other nominee. If you wish to revoke your decision to household and thereby receive multiple proxy statements and annual reports, please contact your broker, bank or other nominee. If any shareholder residing at the same address would like additional copies of the proxy statement and annual report, please contact your broker, bank or other nominee, or you may contact the Company by sending a written request to the Chief Governance Officer, Assistant General Counsel and Corporate Secretary, Sunoco, Inc., 1735 Market Street, Suite LL, Philadelphia, PA 19103-7583 or by calling 215-977-6440.

Table of Contents

15. Q: Does any shareholder own 5% or more of Sunoco s common stock?

A: State Street Bank and Trust Company has reported the following ownership of Sunoco s common stock, as of December 31, 2007. The information below is based on the most recent Schedule 13G filed with the Securities and Exchange Commission, except as otherwise known by the Company.

Shareholder Name and Address	Shares	Percent of Outstanding Shares
State Street Bank and Trust Company 225 Franklin Street Boston, MA 02110	7,247,662[1]	6.2%

NOTE TO TABLE:

1 According to a Schedule 13G dated February 12, 2008 filed with the Securities and Exchange Commission, State Street Bank and Trust Company, acting in various fiduciary capacities, holds sole voting power over 4,716,887 shares and shared dispositive power over 7,247,662 shares.

16. Q: When are the shareholder proposals for the 2009 Annual Meeting due?

A: To be considered for inclusion in next year s proxy statement, all shareholder proposals must be submitted *in writing* to the Chief Governance Officer, Assistant General Counsel and Corporate Secretary, Sunoco, Inc., 1735 Market Street, Suite LL, Philadelphia, PA 19103-7583 by November 17, 2008.

Additionally, Sunoco s advance notice bylaw provisions require that any shareholder proposal to be presented from the floor of the 2009 Annual Meeting must be submitted in writing to the Chief Governance Officer, Assistant General Counsel and Corporate Secretary, at the above address, by December 31, 2008, and must be accompanied by:

- the name, residence and business addresses of the proposing shareholder;
- a representation that the shareholder is a record holder of Sunoco stock or holds Sunoco stock through a broker, bank or other nominee and the number of shares held; and
- a representation that the shareholder intends to appear in person or by proxy at the 2009 Annual Meeting to present the proposal.

A proposal may be presented from the floor only after Sunoco s Board of Directors has determined that it is a proper matter for consideration under our bylaws.

Table of Contents

17. Q: What is Sunoco s process for nominating director candidates?

A: All of Sunoco s directors are elected each year by its shareholders at the annual meeting of shareholders. The Board of Directors is responsible for filling vacancies on the Board at any time during the year, and for nominating director nominees to stand for election at the annual meeting of shareholders. The Governance Committee of the Board of Directors reviews all potential director candidates, and recommends potential director candidates to the full Board. Director candidates may be identified by current directors of the Company, as well as by shareholders. The Governance Committee is comprised entirely of independent directors, as defined in the New York Stock Exchange listing standards and Sunoco s Categorical Standards of Independence. The Governance Committee does not generally utilize the services of search firms or consultants to assist in identifying and screening potential candidates. The Governance Committee has an extensive diligence process for reviewing potential candidates, including an assessment of each candidate s education, experience, independence and other relevant factors, as described under Director Qualifications in Sunoco s Corporate Governance Guidelines (beginning on page 13 in this proxy statement) and in the Governance Committee Charter which can be found on Sunoco s web site at www.SunocoInc.com. The full Board reviews and has final approval authority on all potential director candidates being recommended to the shareholders for election. See the answer to Question 18 below regarding the process for shareholder nominations of director candidates.

Gary Edwards is standing for election as a director for the first time. The Governance Committee and the Board have had as an objective adding a member to the Board with experience in the oil industry, particularly in the refining sector. Mr. Drosdick, in his capacity as Chairman of the Board of Sunoco Partners LLC (the general partner of Sunoco Logistics Partners L. P.) and CEO of Sunoco, Inc., suggested Mr. Edwards name to the Governance Committee. Mr. Drosdick has served with Mr. Edwards on the board of Sunoco Partners for more than five years. The Governance Committee, which is made up of independent directors, vetted Mr. Edwards through the same process as other potential director candidates, including an extensive due diligence process. Mr. Ratcliffe, Chair of the Governance Committee, and other independent directors met with Mr. Edwards to assess his qualifications. The Governance Committee recommended and the full Board approved Mr. Edwards standing for election as a director at the 2008 annual meeting.

Table of Contents

18. **Q:** **Can a shareholder nominate someone to be a director of Sunoco?**

A: As a shareholder, you may recommend any person as a nominee for director of Sunoco for consideration by the Governance Committee by submitting the name and supporting information in writing to the Governance Committee of the Board of Directors, c/o Sunoco, Inc., 1735 Market Street, Suite LL, Philadelphia, PA 19103-7583. Recommendations must be received by December 31, 2008 for the 2009 Annual Meeting, and must be accompanied by:

- ♦ the name, residence and business addresses of the nominating shareholder;
- ♦ a representation that the shareholder is a record holder of Sunoco stock or holds Sunoco stock through a broker, bank or other nominee and the number of shares held, the length of time such shares have been held, and a representation that the shareholder intends to hold such shares through the date of the 2009 Annual Meeting;
- ♦ a representation that the shareholder intends to appear in person or by proxy at the 2009 Annual Meeting to nominate the individual(s) if the nominations are to be made at a meeting of shareholders;
- ♦ information regarding each nominee which would be required to be included in a proxy statement;
- ♦ a description of any arrangements or understandings between and among the shareholder and each and every nominee; and
- ♦ the written consent of each nominee to serve as a director, if elected.

19. **Q:** **How can shareholders communicate with Sunoco s directors?**

A: Sunoco s Board of Directors has established a process for shareholders to send communications to the Board. Shareholders may communicate with any of Sunoco s directors, any committee chairperson or the Board of Directors by writing to the director, committee chairperson or the Board in care of Sunoco s Chief Governance Officer, Assistant General Counsel and Corporate Secretary, at Sunoco, Inc., 1735 Market Street, Suite LL, Philadelphia, PA 19103-7583. Communications received are forwarded directly to the director. If the communication is addressed to the Board and no particular director is named, the communication will be forwarded, depending on the subject matter, to the appropriate Committee chairperson or to all non-management directors.

There were no material actions taken by the Board of Directors during 2007 as a result of communications from shareholders.

Table of Contents

20. Q: How much will this proxy solicitation cost?

A: Morrow & Co., Inc. was hired by Sunoco to assist in the distribution of proxy materials and the solicitation of votes for a fee of $10,000, plus estimated out-of-pocket expenses of $8,000. We also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to shareholders.

21. Q: Who is soliciting my vote?

A: Your vote is being solicited by the Board of Directors of Sunoco, Inc. for the 2008 Annual Meeting of Shareholders to be held on Thursday, May 1, 2008 at 9:30 a.m.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors and executive officers, as well as persons who own more than 10% of Sunoco s common stock to file reports of ownership and changes of ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission, or the SEC. Sunoco believes that during 2007 all SEC filings of its officers and directors complied with the requirements of Section 16 of the Securities Exchange Act, based on a review of forms filed, or written notice that no annual forms were required.

Table of Contents

GOVERNANCE OF THE COMPANY

Corporate Governance Guidelines

INTRODUCTION

Sunoco s corporate governance practices are designed so that qualified directors are elected, that other than the CEO Sunoco s directors are independent directors, and that directors are provided with full and transparent information from management so that the Board can function at a high level. Corporate governance practices are also designed so that full and transparent disclosures are made by Sunoco to its shareholders, the securities markets and the Securities and Exchange Commission.

Sunoco s Board has been focused on corporate governance practices for many years. Sunoco published its first set of formal corporate governance guidelines in 1998 and has updated and republished these guidelines each year in its proxy statement so that its shareholders would be well informed as to the manner in which Sunoco is governed.

Sunoco s Board has specifically charged its Governance Committee with the responsibility of keeping up with best practices in corporate governance so that Sunoco s practices can continually be updated. Recognizing that corporate governance is of critical importance to Sunoco and its shareholders and thus merits adequate resources, in 2002 Sunoco s Board of Directors elected a Chief Governance Officer a senior level executive whose job duties are dedicated to corporate governance and providing guidance with respect to compliance with the securities laws, rules and regulations, and the New York Stock Exchange Listing Standards. With respect to corporate governance matters, this executive reports directly to the Governance Committee and the full Board to help ensure that governance practices, consistent with Sunoco s best practices philosophy, are implemented over time and in the context of an ever-changing and increasingly complex environment.

The following Corporate Governance Guidelines were adopted by Sunoco s Board of Directors on February 26, 2008.

ROLE OF BOARD AND MANAGEMENT

Sunoco s business is conducted by its employees under the direction of the CEO and the oversight of the Board, to enhance the long-term value of Sunoco for its shareholders. The Board is elected by the shareholders to oversee management and to strive to assure that the long-term interests of the shareholders are being served. Both the Board and management recognize that the long-term interests of Sunoco are advanced by responsibly addressing the concerns of other constituencies, including employees, customers, suppliers and the communities in which Sunoco operates.

BOARD COMPOSITION

Annual Director Election: Each director is elected annually by shareholders for a one-year term. Sunoco does not have a staggered board.

Director Independence: A director is independent only if he or she is a non-management director and is free of any direct or indirect material relationship with Sunoco or its management. Except for Sunoco s Chairman and CEO, all current directors meet the independence standards of the New York Stock Exchange Listing Standards and Sunoco s Categorical Standards of Independence set forth below.

Table of Contents

Categorical Standards of Independence: To be considered independent , a director must be determined by resolution of the full Board, after due deliberation, to have no direct or indirect material relationship with the Company. In making this determination, the Board, through its Governance Committee, shall consider all relevant facts and circumstances, and shall apply the following standards to assist the Board when assessing the independence of a director:

a. A director will not be considered independent if:

(i) the director is, or within the last three years was, employed by the Company or any of its subsidiaries;
(ii) an immediate family member of the director is, or has been within the last three years, employed by the Company as an executive officer;
(iii) the director has received, during any twelve-month period within the last three years, more than $100,000 in direct compensation from the Company, other than director and committee fees, and pension or other forms of deferred compensation for prior service (provided it is not contingent on continued service);
(iv) an immediate family member of the director has received, during any twelve-month period within the last three years, more than $100,000 in direct compensation from the Company, other than director and committee fees, and pension or other forms of deferred compensation for prior service (provided it is not contingent on continued service);
(v) the director is a current partner of a firm that is the Company s (or any of its subsidiaries) internal or external auditor; or is a current employee of such a firm; or who was, within the last three years (but is no longer), a partner or employee of such firm and personally worked on the Company s audit within that time;
(vi) an immediate family member of the director is a current partner of a firm that is the Company s (or any of its subsidiaries) internal or external auditor; or is a current employee of a firm that is the Company s (or any of its subsidiaries) internal or external auditor and who participates in the firm s audit, assurance or tax compliance (but not tax planning) practice; or was, within the last three years (but is no longer), a partner or employee of such a firm and personally worked on the Company s audit within that time;
(vii) the director is, or has been within the last three years, employed as an executive officer of another company where any of the Company s present executive officers at the same time serve or served on that company s compensation committee; or
(viii) an immediate family member of the director is, or has been within the last three years, employed as an executive officer of another company where any of the Company s present executive officers at the same time serves or served on that company s compensation committee.

b. The following commercial or charitable relationships will not be considered to be material relationships that would impair a director s independence:

(i) if a director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount, which, in any of the last three fiscal years, did not exceed the greater of $1 million or two percent (2%) of such other company s consolidated gross revenues;
(ii) if a director of the Company is an executive officer of another company which is indebted to the Company, or to which the Company is indebted, and the total amount of either company s indebtedness to the other is less than two percent (2%) of the total consolidated assets of either company; or
(iii) if a director is an executive officer of a tax-exempt organization**,** and the Company or the Sunoco Foundation made, within the preceding three years, discretionary contributions that

Table of Contents

in any single fiscal year were less than the greater of $1 million or two percent (2%) of the tax-exempt organization s consolidated gross revenues, as determined from the tax-exempt organization s latest publicly available financial information.

c. The following relationships are not material and do not impair a director s independence:

(i) a director or his immediate family members purchasing gasoline, heating oil, or other products or services of the Company, all on terms and conditions similar to those available to Company employees or other third parties (including, but not limited to, prices and discounts).

d. An Audit Committee member may not have a direct or indirect financial relationship with the Company or any of its subsidiaries (i.e., accept directly or indirectly any consulting, advisory or other compensatory fee) other than compensation for service as a director. Audit Committee members may receive directors fees (in the form of cash, stock, stock units or other in-kind consideration ordinarily available to directors, as well as regular benefits that other directors receive).

e. An Audit Committee member may not be an affiliated person of the Company or any of its subsidiaries. Affiliated person is defined in Rule 10A-3 of the Securities Exchange Act of 1934 to mean a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

f. With respect to any relationship not covered by paragraphs a , b and c above, the determination of whether the relationship is material, and therefore whether the director would be independent, will be made by the directors who satisfy the independence criteria set forth in paragraphs a and b above. The Company will describe and explain in the next proxy statement the basis for any determination by the Board of Directors that a relationship is not material despite the fact that it does not meet the categorical standards set forth in paragraph b above. The Company will also disclose and explain the basis for any determination of independence for a director that does not meet the criteria in paragraphs a and b above.

Board Size and Mix: Annually by resolution, Sunoco s Board fixes the number of directors that will constitute the Board for the following year. The Board believes that a board size of between 10 and 12 directors is the ideal size for Sunoco, although at times the size may vary due to transition periods for new directors in anticipation of planned director retirements.

Director Qualifications: The Governance Committee and the full Board of Directors considers, at a minimum, the following factors in recommending potential new Board members or the continued service of existing members:

a. A director is nominated based on his or her professional experience. He or she should be accomplished and have recognized achievements in his or her respective field.

b. A director should have relevant education, expertise and experience, and be able to offer advice and guidance to the Chief Executive Officer based on that expertise and experience.

c. A director should possess high personal and professional ethics, integrity and values.

d. A director must be inquisitive and objective, have the ability to exercise practical and sound business judgment, and have an independent mind.

15

Table of Contents

e. A director must be willing to devote sufficient time and effort to carrying out his or her duties and responsibilities effectively.

f. All of the directors, except for the Chief Executive Officer, should be independent, as outlined in Sunoco s Categorical Standards of Independence.

g. A director should have the ability to work effectively with others.

h. The Board generally seeks active or former chief executive officers or senior level executives of public companies, or leaders of major complex organizations, with experience at a strategy/policy setting level or with high level management experience.

i. The Board of Directors seeks qualified individuals who, taken together, represent a diversity of skills, backgrounds and experience, including ethnic background, gender and professional experience.

j. The Board, through the Governance Committee, assesses which functional skills or areas of expertise are needed to round out the existing collective strengths of the Board as part of its director selection process.

Director Candidate Selection: All of Sunoco s directors are elected each year by its shareholders at the annual meeting of shareholders. The Board of Directors is responsible for filling vacancies on the Board at any time during the year, and for nominating director nominees to stand for election at the annual meeting of shareholders. The Governance Committee of the Board of Directors reviews all potential director candidates, and recommends potential director candidates to the full Board. Director candidates may be identified by current directors of the Company, as well as by shareholders. The full Board reviews and has final approval authority on all potential director candidates being recommended to the shareholders for election.

Changes to a Director s Current Position: If the primary position held by an independent director at the time of election (including retirement) changes, he or she must offer to tender his or her resignation as a director to the Governance Committee.

Service by Independent Directors on Other Boards and Other Audit Committees:

Ø *Other Boards*. Sunoco does not limit the number of other public company boards on which an independent director may serve. However, Sunoco does expect all directors to devote sufficient time and effort to their duties as a Sunoco Board member. This is a factor that is considered in the annual individual director evaluation process.

Ø *Other Audit Committees*. As a general rule, Sunoco s independent directors are expected to serve on not more than two other public company audit committees in addition to Sunoco s.

Prior to joining the board of another public company, as well as the board of any non-public, for-profit company, directors are required to advise Sunoco s Governance Committee so that a review can be performed to ensure there are no conflicts or other issues.

Service by CEO on Other Boards: The CEO must obtain the approval of the Governance Committee prior to accepting an invitation to serve on the board of another public company. The Governance Committee is of the view that the CEO should be limited to two outside public company directorships in addition to board service on Sunoco Partners LLC, the general partner of Sunoco Logistics Partners L.P. Sunoco s Board is of the view that service on the Sunoco Partners LLC board should not be considered an outside public company directorship because it is part of the responsibilities of Sunoco s CEO to spend time overseeing each of Sunoco s business units regardless of the corporate structure of those entities.

Table of Contents

The CEO may not serve on the board of a company on which a Sunoco independent director serves as an officer.

Retirement Age: Sunoco s directors retire from the Board at the annual meeting following their 72nd birthday unless the Governance Committee recommends to the Board in limited and special circumstances an exception to this requirement and it is approved by the independent directors of the Board. Because Sunoco s Board has adopted a mandatory retirement age and because Sunoco s Governance Committee annually performs an individual director evaluation for each director prior to recommending his or her nomination for election by the shareholders, the Board has decided not to adopt term limits for its directors.

CEO Board Service: Any CEO of the Company, who also serves as a director, shall tender his or her resignation from the Board at the same time he or she retires, resigns or is removed from the Company. The Governance Committee will recommend to the Board whether or not to accept he resignation, which must be approved by the independent directors of the Board.

BOARD OPERATIONS

Board Leadership: Sunoco s CEO also holds the position Chairman of the Board. Sunoco s Chairman and CEO is not a member of any standing Board committee, other than the Executive Committee. Sunoco believes the unified position of Chairman and CEO serves the corporation well because the remainder of Sunoco s non-management directors, who are all independent, have many opportunities to be involved with the agenda setting process and to significantly influence the Board process.

Ø *Executive Sessions.* Executive Sessions of only non-management directors are regularly scheduled at the conclusion of each board meeting. A *Presiding Director* leads each Executive Session and is responsible for leading and facilitating the agenda and discussions at these sessions. Sunoco s non-management directors each serve as Presiding Director for an Executive Session on a rotating basis. The Presiding Director s other duties include (i) serving as liaison between the Chairman and the independent directors; and (ii) coordinating and developing future executive session meeting agendas and schedules and soliciting input for future Board and Committee meeting agendas and schedules, as appropriate, as well as seeking from the non-management directors any items and/or matters that warrant follow-up. The Presiding Director has the responsibility of providing appropriate comments, suggestions and other information to the Chairman and CEO after each Executive Session.

Ø *Independent Director Only Meetings*. In addition to the Executive Sessions, two separate meetings of non-management directors are held each year. The Chair of the Governance Committee leads these meetings and is responsible for agenda preparation. The Chair of the Governance Committee is also responsible for leading the non-management directors in the CEO evaluation and the Board self-evaluation.

Board Meetings: Sunoco s Board usually meets seven times per year in regularly scheduled meetings, but meets more often if necessary. Six of these regularly scheduled meetings occur over a two-day period, including Committee meetings. During these meetings, strategic and other issues, as well as major corporate actions are reviewed and approved. In addition, annually, the Board meets over a longer period to summarize, review and approve strategic and other issues.

Meeting Agendas: The Chairman and CEO establishes a preliminary agenda for each Board meeting. Any director may request items to be included on the agenda.

Table of Contents

While the Board believes that a carefully planned agenda is important for effective Board meetings, the agenda is flexible enough to accommodate new developments. Ample time is scheduled at each Board meeting to assure full discussion of important matters. Agendas, in addition to including financial and operating reports, also include other reports, such as current issues that could affect Sunoco s short-term and/or long-term strategy and business, critical measures and comparisons, and other types of presentations that could enhance a director s perspective on various matters. Management presentations are scheduled to permit a substantial proportion of Board meeting time to be available for discussion and comments.

The Corporate Secretary maintains a list of recurring agenda items and the timing of such agenda items throughout the year. This list is circulated to all Board members, who are free to add additional agenda items.

Information Flow: Board members receive agendas and other information well in advance of Board meetings so they will have an opportunity to prepare for discussion of the items at the meeting.

Information is provided from a variety of sources, including management reports, periodic SEC reports, a comparison of performance to operating and financial plans, reports on Sunoco s stock performance and operations prepared by third parties, and articles from various business publications.

In many cases, significant items requiring Board approval may be reviewed and discussed at one or more meetings and voted upon in subsequent meetings.

Regular Attendance of Non-Directors at Board Meetings: Board meetings generally begin in executive session with only Board members and Sunoco s General Counsel and its Corporate Secretary in attendance. Thereafter, the Board meets in plenary session joined by the other Sunoco senior executives. At each meeting, various senior executives report to the Board on their respective areas of responsibility. At times, other Sunoco personnel are asked to make specific presentations to the Board.

New Director Orientation: Sunoco s new directors are required to attend orientation sessions which include receiving and reviewing extensive materials relating to Sunoco s business and operations, visiting Sunoco facilities and meeting key personnel. The orientation also includes an overview of Sunoco s strategic plan, goals and objectives, governance practices, disclosure procedures and practices, compensation philosophy and an overview of Sunoco s investor relations program.

New directors attend meetings of all Board committees to acquaint them with the work and operations of each committee. After this rotation, new directors are assigned to particular committees. The new members attend committee orientation sessions. These sessions are designed to educate new committee members in helping them understand the substantive responsibilities of the committee.

Ongoing Director Education: Sunoco conducts ongoing training or continuing director education for its Board members. In addition to plant and site visits, Sunoco has an ongoing program of continuing director education on emerging issues and topics designed to educate and inform directors in discharging their duties. Sunoco is supportive of, and reimburses its directors for, attending qualified third-party director education programs.

Performance Evaluations: Sunoco s Board has a three-tier performance evaluation process which enables continuous improvements at all three tiers.

Ø *Full Board Evaluation.* The Board, through the Governance Committee, conducts an annual evaluation of how it is functioning as a whole. The results are reviewed with the Board.

Table of Contents

- *Committee Evaluation.* Sunoco s individual committees conduct annual self-evaluations. The results are reviewed with each committee and with the Board.

- *Individual Director Performance Evaluation.* Individual director evaluations are conducted annually by the Governance Committee. The Chair of the Governance Committee meets confidentially with each director to provide feedback.

BOARD STRUCTURE

Committees of the Board: The full Board makes all decisions of major importance to Sunoco. The Board has established five standing committees so that certain areas can be addressed in more depth.

Committee Structure: Sunoco s five standing committees are: the Audit Committee, the Compensation Committee, the Governance Committee, the Corporate Responsibility Committee, and the Executive Committee. Each Committee has the authority to, as it deems appropriate, independently engage outside legal, accounting or other advisors or consultants at the expense of Sunoco. The current charters of each committee are published on Sunoco s website and will be mailed to shareholders upon written request. A summary of the responsibilities of each of the committees follows:

- *Audit Committee.* The Audit Committee assists the Board in its oversight of the integrity of Sunoco s financial statements and disclosures and other internal control processes and Sunoco s compliance with ethics policies and legal and regulatory requirements. This Committee prepares a report that is included in Sunoco s proxy statement. The Committee appoints, retains, compensates, terminates and oversees the work of, and evaluates the independence and ability of, the independent registered public accounting firm, as well as selects and evaluates Sunoco s General Auditor. The Committee also provides oversight on Sunoco s guidelines and policies with respect to business risk matters and other matters deemed appropriate by the Committee. The Committee establishes procedures for handling complaints, including the anonymous, confidential treatment of complaints regarding Sunoco s accounting, internal accounting controls or auditing matters.

- *Compensation Committee.* The Compensation Committee reviews and approves Sunoco s compensation philosophy, reviews and recommends Board approval of Sunoco s short- and long-term incentive plans, and reviews and approves the executive compensation programs and awards. The Committee determines and approves CEO compensation, and reviews and approves the compensation of the other senior executive officers. The Committee reviews and discusses with management the Compensation Discussion & Analysis (the CD&A) required by the Securities and Exchange Commission and recommends to the Board that the CD&A be included in the Company s proxy statement. The Committee produces an annual compensation committee report for inclusion in Sunoco s proxy statement. The Committee also reviews the general employee pension and employee welfare benefit plans, as appropriate.

- *Governance Committee.* The Governance Committee reviews the role, composition and structure of the Board and its committees, focusing on among other things the independence requirements as set forth in the New York Stock Exchange Corporate Governance Listing Standards and in Sunoco s Categorical Standards of Independence. The Committee reviews and approves related person transactions in accordance with Sunoco s Related Person Transactions Policy. The Committee reviews and evaluates individual Board members each year prior to recommending the annual directors slate for election by shareholders at the Annual Meeting. The Committee identifies and reviews qualified individuals as potential new director candidates. Additionally, the Committee sets and administers policies governing the level and form of directors compensation.

Table of Contents

The Governance Committee monitors and reviews corporate governance issues, emerging trends and best practices and has specifically been charged with recommending to the Board, on an on-going basis, a set of corporate governance guidelines.

Ø *Corporate Responsibility Committee.* The Corporate Responsibility Committee has oversight responsibility for, and makes recommendations to the Board, as appropriate, regarding the Company s: (1) internal policies, practices, positions and performance in the areas of (a) health, environmental impact and safety, (b) equal employment opportunity and diversity, (c) government relations and (d) corporate philanthropy; and (2) external performance as a responsible corporate citizen, keeping the Board apprised of the integrity and propriety of the Company s positions with those individuals, organizations and institutions over which the Company does not have direct control, but whose influence or actions are important to the success of the Company, such as shareholders, communities in which we do business, state, local and federal governments, special interest groups, and others.

Ø *Executive Committee*. The Executive Committee exercises the authority of the Board during the intervals between meetings of the Board except for Board actions specifically excluded by law and except that no action shall be taken by this Committee if any member of the Committee has voted in opposition.

Committee Membership:

Ø *Independence.* Each committee of the Board, except for the Executive Committee, is composed entirely of independent directors, as defined in the New York Stock Exchange Listing Standards and Sunoco s Categorical Standards of Independence.

Ø *Other Qualifications.* The individual qualifications of committee members are reviewed annually for compliance with the various regulatory requirements mandated for the members of each particular committee. The Governance Committee recommends the members and chairs of the Committees to the Board.

Ø *Rotation Policy.* Sunoco s Board does not have a practice of automatic rotation of committee chairs and members after a set time period. There are many reasons to maintain an individual director on a specific committee, including continuity and subject matter expertise necessary for an effective committee. However, the Governance Committee reviews the strengths and expertise of each director, as well as the current and anticipated needs for each committee and, at times, may rotate members based on committee needs.

Committee Agendas: Committee agendas are prepared by the Committee Secretary in consultation with the Committee Chair. Annual recurring events for each committee are circulated each year and used as preliminary agenda items. All committee members are free to include additional items on an agenda.

Committee Reporting: Each Committee Chair reports to the full Board on committee actions in a timely manner, but in no event later than the next Board meeting.

BOARD RESPONSIBILITIES

Review and Approve Sunoco s Strategic Plan, Annual Operating Plan and Major Corporate Actions:

- Annually, the Board reviews and approves Sunoco s three-year strategic plan and the annual operating plan.

Table of Contents

Ø On an on-going basis, the Board reviews and approves all major corporate actions. The Board also reviews political, regulatory and economic trends and developments that may impact Sunoco.

Monitor Sunoco s Performance:

Ø On an on-going basis during the year, the Board monitors Sunoco s performance against its annual operating plan and against the performance of its peers.

Ø On a regular basis at Board meetings and through periodic updating, the Board reviews Sunoco s financial performance with a particular focus on peer and competitive comparisons. These reviews include the views of management, as well as those of key investors and securities analysts.

Evaluate the CEO:

Ø The CEO is the highest-ranking member of the management team. As such, he or she is accountable to the Board for Sunoco s management and performance.

Ø Annually, the CEO meets with the independent directors to discuss the overall performance and direction of the Company, as well as his or her individual performance.

Ø Following that discussion, the independent directors meet separately, at a meeting which is led by the Chair of the Governance Committee, to evaluate Sunoco s direction and performance and the individual performance of the CEO.

Ø The results of this evaluation are communicated to the CEO at an executive session of the Board.

Review and Approve Executive Compensation:

Ø The Board, through the Compensation Committee, reviews and approves the compensation plans for senior executives to ensure they are appropriate, competitive and properly reflect Sunoco s goals and objectives.

Ø Annually, the Compensation Committee approves appropriate goals and objectives for the annual and long term executive incentive plans, which are then reviewed with the entire Board.

Review and Approve CEO and Management Succession Planning and Development:

Ø The Board plans for succession of the CEO as well as the other senior executive positions.

- Ø To assist the Board, the CEO annually provides the full Board with an assessment of senior executives, their potential to succeed him, and future development plans.

- Ø The CEO also provides the full Board with an assessment of persons considered potential successors to the senior executive positions and future development plans.

Advise and Counsel Management:

- Ø Advice and counsel to management occurs both through formal Board and Committee meetings and through informal, individual director contacts with the CEO and other members of management at various levels throughout the Company.

- Ø The information needed for the Board s decision-making will often be found within Sunoco, and directors have full access to management.

- Ø The Board and its Committees have the right to, at any time, retain outside financial, legal or other advisors or consultants at the expense of Sunoco.

Table of Contents

Monitor Ethical and Legal Compliance:

The Board, primarily through the Audit Committee, monitors ethical and legal compliance by overseeing the processes which are in place to maintain the integrity of the company the integrity of the financial statements, and internal control over financial reporting and disclosure controls and procedures, and the integrity of compliance with laws and ethics and with Sunoco s Code of Business Conduct and Ethics.

BOARD AND EXECUTIVE COMPENSATION PROGRAM

Sunoco maintains fair and straightforward compensation programs at both the Board and executive levels designed to enhance shareholder value.

Director Compensation:

Ø Sunoco s Governance Committee, which is composed entirely of independent directors, sets and administers the policies that govern the level and form of director compensation.

Ø Sunoco s Governance Committee and its Board of Directors believe that the compensation program for Sunoco s independent directors should be designed to attract highly qualified directors; provide appropriate compensation for their time, efforts, commitment and contributions to Sunoco and Sunoco s shareholders; and align the interests of the independent directors and Sunoco s shareholders. This compensation philosophy includes providing a competitive level of compensation necessary to attract experienced and qualified individuals.

Ø Sunoco s Governance Committee directly engages an independent compensation consultant to advise it on an annual basis as to best practices and emerging trends in director compensation. The compensation consultant also benchmarks Sunoco s director compensation compared to the peer companies, the oil industry generally and general industry data.

Ø Sunoco s Governance Committee believes that a substantial portion of the total director compensation package should be in the form of Sunoco common shares and share equivalents in order to better align the interests of Sunoco s directors with the long-term interests of its shareholders.

Ø In 2003, the Governance Committee recommended, and the full Board approved, the discontinuance of the granting of stock options to the Company s independent directors as a form of compensation.

Ø In order to further encourage a link between director and shareholder interests, the Committee adopted Director Stock Ownership Guidelines to which members of the Board of Directors are expected to adhere. Sunoco s independent directors are expected to own shares or share equivalents equal to five times the total annual retainer within five years of joining the Sunoco Board.

Ø

In addition to the Director Stock Ownership Guidelines, director-nominees are required to own at least $2,000 worth of Sunoco common shares prior to standing for election as a director for the first time.

Ø Sunoco directors are prohibited from entering into short sales, or purchasing, selling, or exercising any puts, calls or similar instruments pertaining to Company securities.

22

Table of Contents

Executive Compensation:

- Ø Sunoco s Compensation Committee, which consists entirely of independent directors, has the sole authority to and does retain an independent compensation consultant to assist in the evaluation of CEO and senior executive compensation.

- Ø Total compensation for Sunoco s CEO and the senior executives has generally been targeted at median levels for targeted Company performance as determined from an annual review of peer companies, industry peers and general industry data, which is adjusted for each company s relative revenue base. Actual total compensation has varied based upon Company performance.

- Ø Sunoco s annual incentive program is designed to result in payments that are closely correlated with Sunoco s earnings, return on capital employed and health, environmental and safety performance. Most Sunoco salaried employees and hourly manufacturing employees have participated in an annual bonus plan utilizing the same performance factors used for the executive annual incentive plan.

- Ø Sunoco s long-term incentive awards have been a mix of stock options and performance-based common stock units that are based on performance factors over a three-year period.

- Ø Sunoco s long-term incentive awards (options and performance units) generally have been granted at a rate of less than 1% of outstanding shares per year.

- Ø Under the current long-term incentive plan, stock options have been granted at the fair market value on the date of grant and have become exercisable two years after such date. In addition, the plan prohibits the repricing of out-of-the-money stock options and does not provide for reload options.

- Ø Sunoco maintains stock ownership guidelines for its approximately top 40 executives. The amount of stock required to be owned increases with the level of responsibility of each executive, with the CEO expected to own stock with a value at least equal to six times his base salary.

- Ø Sunoco employees are prohibited from entering into short sales, or purchasing, selling, or exercising any puts, calls or similar instruments pertaining to Company securities. This does not include Sunoco stock options exercised in accordance with the terms of the Company s stock option plan.

- Ø Sunoco prohibits any executive of the Company from utilizing, engaging, retaining, or hiring the independent registered public accounting firm that has been appointed/engaged by Sunoco s Audit Committee for personal financial counseling, including tax services.

- Ø Sunoco policy prohibits the making of personal loans or extensions of credit to directors or executive officers.

A copy of the Corporate Governance Guidelines can also be found at Sunoco s web site at www.SunocoInc.com, and a printed copy is available upon request.

Table of Contents

Other Governance Matters

Director Independence

Except for the Chief Executive Officer, or CEO, all of Sunoco s directors are independent as defined by the New York Stock Exchange, or NYSE, Corporate Governance Listing Standards, as amended, and by the Company s Categorical Standards of Independence, or the Standards, which were recommended by the Governance Committee and adopted by the Board of Directors. The Standards specify the criteria by which the independence of Sunoco s directors will be determined. When making an independence determination, the Board endeavors to consider all relevant facts and circumstances. In accordance with the Standards, an independent director must be determined by the Board to have no material relationship with the Company other than as a director. The full text of the Standards is included in Sunoco s Corporate Governance Guidelines under Categorical Standards of Independence on pages 14 to 15 of this proxy statement. Sunoco s Corporate Governance Guidelines are also available on Sunoco s web site (www.SunocoInc.com).

In making these determinations, the Board considered that in the ordinary course of business, transactions may occur between the Company and its subsidiaries and companies at which some of our directors or their immediate family members are or have been officers (Messrs. Jones and Rowe), or at which our directors and director nominee are current directors (Mr. Darnall, Mr. Edwards, Ms. Fairbairn, Ms. Greco, Messrs. Gerrity, Jones, Kaiser, Ratcliffe, Rowe and Wulff). In each case, the amount of transactions, if any, with these companies in each of the last three years was under the thresholds set forth in the Standards. The Board also considered charitable contributions made by the Company or the Sunoco Foundation to not-for-profit organizations of which our directors and director nominee are executive officers or directors, if any, and no contributions exceeded the thresholds set forth in the Standards.

In accordance with the Standards, the Board undertook its annual review of director independence. As provided in the Standards, the purpose of this review was to determine whether any such relationships or transactions existed that were inconsistent with a determination that the director is independent. Pursuant to the Standards and a review of relevant facts and circumstances, the Board has affirmatively determined that all the directors and director nominee, with the exception of John G. Drosdick, Sunoco s Chairman, Chief Executive Officer and President, are independent. The directors and the director nominee determined to be independent are: Robert J. Darnall, Gary W. Edwards, Ursula O. Fairbairn, Thomas P. Gerrity, Rosemarie B. Greco, John P. Jones, III, James G. Kaiser, R. Anderson Pew, G. Jackson Ratcliffe, John W. Rowe and John K. Wulff.

The NYSE Corporate Governance Listing Standards require that the Audit, Compensation and Governance Committees of the Board of Directors must be composed entirely of independent directors. The members of each of these committees are identified in the table in Board and Committees on page 27 of this proxy statement. As noted above, all of these directors have been determined to be independent as defined by the NYSE Corporate Governance Listing Standards and Sunoco s Categorical Standards of Independence. The Audit Committee members are also independent as defined in the rules and regulations of the Securities and Exchange Commission.

Certain Relationships and Related Transactions

For many years, Sunoco has had procedures for the review of related person transactions. In 2007, the Board approved a written policy and procedures for the review, approval or ratification of related person transactions, the Related Person Transactions Policy. The policy applies to Interested

Table of Contents

Transactions with a Related Person. For purposes of the policy, Interested Transaction includes a transaction, arrangement or relationship, or series of similar transactions, with an aggregate amount involved exceeding $100,000, in which the Company is a participant and a Related Person has a direct or indirect interest. Related Person includes a director, director nominee, executive officer, greater than 5% beneficial owner, or an immediate family member of the preceding group. The policy provides that the Governance Committee will review the material facts of Interested Transactions that require the Committee s approval and will approve, disapprove or ratify the entry into the transaction.

Under the policy, certain Interested Transactions have standing pre-approval. These include: employment of executive officers if the compensation is disclosed in the proxy statement or approved by the Compensation Committee; employment of an immediate family member with compensation less than $120,000; director compensation that is disclosed in the proxy statement; transactions with companies where the business is less than the greater of $1 million or 2% of the other company s total revenues; certain charitable contributions; regulated transactions; certain banking services; and certain transactions available to all employees or third parties generally.

The Board, through its Governance Committee, in accordance with the Related Person Transaction Policy, has carefully reviewed certain business or other relationships that Sunoco maintains with entities with which certain officers, directors, director nominee, and immediate family members are affiliated, and has concluded that they relate to activities conducted in the normal course of business or that they are not material, and that none requires additional disclosure.

An affiliate of Sunoco s SunCoke Energy, Inc. subsidiary expects to enter into a transaction with United States Steel, whereby United States Steel will purchase furnace coke for its Granite City Works. It is anticipated that the supply and purchase obligations will become effective upon completion of a new cokemaking facility to be built by the SunCoke affiliate adjacent to the Granite City Works. The permit necessary for construction of the cokemaking facility has not yet been issued. Both Mr. Drosdick and Mr. Darnall serve on the Board of United States Steel. Sunoco s Board determined that neither Mr. Drosdick nor Mr. Darnall has any direct or indirect material interest in this transaction. In addition, the amount of payments to be made by United States Steel in connection with this transaction are expected to be significantly less than 2% of Sunoco s gross annual revenues.

Communications with Directors

Interested persons with concerns may communicate issues to Sunoco s non-management directors by calling Sunoco s toll-free, confidential Employee and Compliance Hotline at 1-800-228-5687. The hotline is available 24 hours a day, seven days a week.

Annual Meetings

For the last ten years, Sunoco s annual meetings of shareholders have been held in Philadelphia, PA where Sunoco s corporate headquarters and several major operating facilities are located. The meetings are always live, in-person meetings. The polls remain open during the meetings until shareholders have had the opportunity to ask questions about the items being voted on. In addition, after the business portion of the meeting, a question-and-answer period is held during which shareholders can ask questions on any matters. It is the Company s policy that the directors and director nominee, all of whom are up for election at the annual meeting, attend the annual meeting. All nominees for election at the 2007 Annual Meeting of Shareholders attended the 2007 Annual Meeting.

Table of Contents

Code of Business Conduct and Ethics

Sunoco, Inc. has a Code of Business Conduct and Ethics, or Code of Ethics, which applies to all officers, directors and employees including the chief executive officer, the principal financial officer, the principal accounting officer and persons performing similar functions. Sunoco intends to disclose on its web site the nature of any future amendments to and waivers of the Code of Ethics that apply to the chief executive officer, the principal financial officer, the principal accounting officer and persons performing similar functions.

A copy of the Code of Ethics can be found on Sunoco s web site (www.SunocoInc.com), and a printed copy is available upon request.

Table of Contents

Board and Committees

During 2007, the Board of Directors held nine meetings and had five standing committees consisting of an Audit Committee, a Compensation Committee, a Corporate Responsibility Committee, an Executive Committee, and a Governance Committee. For a description of the responsibilities and functions performed by each of the committees, see Sunoco s Corporate Governance Guidelines beginning on page 13 of this proxy statement. Copies of the committee charters can be found on Sunoco s web site at www.SunocoInc.com. Printed copies are also available upon request. All directors attended at least 75% of the total number of Board meetings and committee meetings during the period that they served on the Board and committees in 2007.

The table below provides Board committee membership as of February 26, 2008. The table also indicates the number of meetings held by each of the Board committees in 2007.

Name	Audit	Compensation	Corporate Responsibility	Executive	Governance
R. J. Darnall	x[1]		x		x
J. G. Drosdick				x[1]	
U. O. Fairbairn		x[1]	x	x	
T. P. Gerrity	x				x
R. B. Greco	x			x	x
J. P. Jones, III		x			x
J. G. Kaiser		x	x[1]	x	
R. A. Pew	x		x	x	
G. J. Ratcliffe	x	x		x	x[1]
J. W. Rowe		x	x		
J. K. Wulff	x		x		
Number of Meetings in 2007	9	7	3	2	7

NOTE TO TABLE:

1 Committee Chairperson.

Audit Committee Financial Expert

The Board has determined that John K. Wulff qualifies as an audit committee financial expert, as defined by the applicable rules of the Securities and Exchange Commission, based on his financial and accounting education and experience, and has designated Mr. Wulff as the audit committee financial expert. Mr. Wulff is currently the Chairman of Hercules Incorporated. He was with KPMG and predecessor certified public accounting firms from 1971 until 1987 where he served as an audit partner for ten years. He served as Chief Financial Officer of Union Carbide for five years until its merger with Dow Chemical Company, and he was a member of the Financial Accounting Standards Board for two years.

27

Table of Contents

Directors and Officers Ownership of Sunoco Stock

The following table shows how much Sunoco common stock and other share equivalents each director, director nominee, Named Executive Officer[1], and all directors (including new nominee) and executive officers as a group, beneficially owned as of December 31, 2007.

Directors and Officers Stock Ownership

Name	Shares of Common Stock Beneficially Owned[2]	Other Share Equivalents[3]	Total	Percent of Class Outstanding[4]
R. J. Darnall**[5]	4,000	16,624	20,624	*
M.H.R. Dingus**[6]	56,469	0	56,469	*
J. G. Drosdick**[6]	304,000	0	304,000	*
G. W. Edwards[7]	0	0	0	*
U. O. Fairbairn**[6]	9,184	20,570	29,754	*
B. G. Fischer**[6]	51,739	0	51,739	*
T. P. Gerrity[8]	3,828	25,661	29,489	*
R. B. Greco**	4,920	35,098	40,018	*
T. W. Hofmann**[6]	135,767	0	135,767	*
J. P. Jones III	500	4,356	4,856	*
J. G. Kaiser**[6]	26,218	19,856	46,074	*
R. W. Owens[6]	44,531	6,583	51,114	*
R. A. Pew[5,8]	162,910	12,755	175,665	*
G. J. Ratcliffe**[5,8]	2,000	30,006	32,006	*
J. W. Rowe	1,000	15,072	16,072	*

C. K. Valutas**[6]	47,923	0	47,923	*
J. K. Wulff	2,000	13,406	15,406	*
All directors (including new nominee) and executive officers as a group including those named above**[6,8]	1,070,997	208,650	1,279,647	1.1%

28

Table of Contents

NOTES TO TABLE:

* Represents holdings of less than 1% of Sunoco s outstanding common stock.

** Certain of the directors and executive officers own common units representing limited partnership interests of Sunoco Logistics Partners L.P., a master limited partnership in which Sunoco has a 43% ownership interest. The number of such common units beneficially owned by individuals listed in the Directors and Officers Ownership of Sunoco Stock Table as of December 31, 2007 are as follows: R. J. Darnall (4,000); M.H.R.Dingus (2,000); J. G. Drosdick (30,000); U. O. Fairbairn (2,500); B. G. Fischer (3,000); R. B. Greco (1,500); T. W. Hofmann (2,500); J. G. Kaiser (2,500); G. J. Ratcliffe (20,000); and C. K. Valutas (2,150 direct, and 1,970, as trustee). The total number of such common units owned by directors (including new nominee) and executive officers as a group (24 persons) is 88,370. The number of common units of Sunoco Logistics Partners L.P. held by each individual and by the group is less than 1% of the outstanding common units as of December 31, 2007. These amounts are not included in the table.

1 The Chief Executive Officer, the Chief Financial Officer, and the next four most highly compensated executive officers during the last fiscal year.

2 This column includes shares of Sunoco common stock held by directors (including new nominee) and officers or by certain members of their families (for which the directors (including new nominee) and officers have sole or shared voting or investment power), shares of Sunoco common stock they hold in SunCAP and Sunoco s Shareholder Access & Reinvestment Plan or SHARP , and shares of Sunoco common stock that directors and officers had the right to acquire within 60 days of December 31, 2007.

3 Includes share unit balances held under the Directors Deferred Compensation Plan I, the Directors Deferred Compensation Plan II, and the Deferred Compensation Plan for executives, and share equivalent balances held by executives under Sunoco s Savings Restoration Plan (see the table on page 72 and the Nonqualified Deferred Compensation in 2007 Table on page 82). Although ultimately paid in cash, the value of share units and share equivalents mirrors the value of Sunoco common stock. Thus, the amounts ultimately realized by the directors (including new nominee) and executive officers will reflect all changes in the market value of Sunoco common stock from the date of deferral and/or accrual until the date of payout. The share units and share equivalents do not have voting rights, but are credited with dividend equivalents in the form of additional share units or share equivalents.

4 Percentage based on the number of shares of common stock outstanding at December 31, 2007.

5 Under the transition rules of Section 409A of the Internal Revenue Code, and as Sunoco, Inc. directors who will attain age 72 on or before December 2010, Messrs. Darnall, Pew and Ratcliffe made a one-time election in December 2007 to take a distribution of all or a portion of their deferred accounts under the Directors Deferred Compensation Plans I and II in June 2008. Mr. Pew elected to take a distribution of all of his deferred accounts under Plans I and II; Mr. Ratcliffe elected to take a distribution of all of his deferred accounts under Plan I; and Mr. Darnall elected to take a distribution of all of his deferred accounts under Plan II, and 50% of his deferred accounts under Plan I. In early January 2008, Messrs. Pew and Ratclife made a one-time conversion from share units to cash units of the amounts they elected to have paid out from their accounts, with the share units that were converted being valued at the average closing price of a share of Sunoco common stock for the ten trading days immediately prior to January 1, 2008. As a result, as of January 2, 2008, Mr. Pew no longer has any deferred share units; and Mr. Ratcliffe had 6,846 share units remaining in his deferred account.

6 The amounts of shares of common stock beneficially owned include shares of Sunoco common stock which the following persons have the right to acquire as a result of the exercise of stock options within 60 days after December 31, 2007 under certain Sunoco, Inc. plans:

Name	Shares
M.H.R. Dingus	17,000
J.G. Drosdick	114,000
U. O. Fairbairn	3,332
B.G. Fischer	21,000

T.W. Hofmann	85,000
J. G. Kaiser	6,492
R.W. Owens	23,500
C.K. Valutas	21,000
All directors (including new nominee) and executive officers as a group (including those named above)	383,524

29

Table of Contents

NOTES TO TABLE (CONTINUED):

7 G.W. Edwards has not been a director or officer of Sunoco, and is standing for election to Sunoco s Board of Directors for the first time. Prior to standing for election, Mr. Edwards purchased 1,000 shares of Sunoco common stock.

8 The individuals and group named in the table have sole voting power and investment power with respect to shares of Sunoco common stock beneficially owned, except that voting and/or investment power is shared with respect to the number of shares noted below:

Name	Shares
T. P. Gerrity	3,828
R. A. Pew	32,100
G. J. Ratcliffe	2,000
All directors (including new nominee) and executive officers as a group (including those named above)	38,667

Table of Contents

Equity Compensation Plan Information

The following table provides information as of December 31, 2007 with respect to Sunoco common stock that may be issued upon the exercise of options, warrants and rights under Sunoco s existing equity compensation plans, including the Long-Term Performance Enhancement Plan II, the Long-Term Performance Enhancement Plan, and the Retainer Stock Plan for Outside Directors.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders:			3,420,281[4]
Stock options	1,572,308[1]	$ 63.35	
Common stock units	231,165[2]	___[3]	
Equity compensation plans not approved by shareholders	0		0
Total	1,803,473	$ 63.35	3,420,281

NOTES TO TABLE:

1 Consists of stock options granted under the following shareholder-approved plans: Long-Term Performance Enhancement Plan II and the Long-Term Performance Enhancement Plan. No additional awards may be granted under the Long-Term Performance Enhancement Plan.

2 Consists of common stock units awarded under the Long-Term Performance Enhancement Plan II that are payable in stock. In addition, there are 371,320 common stock units that are payable in cash under this plan.

3 Common stock units do not have an exercise price. Payout is based on meeting certain targeted performance criteria or length of employment.

4 Consists of 3,042,379 shares available for issuance under the Long-Term Performance Enhancement Plan II and 377,902 shares under the Retainer Stock Plan for Outside Directors.

Table of Contents

PROPOSALS ON WHICH YOU MAY VOTE

Item 1. Election of Directors

There are 12 nominees for election this year. Detailed information on each nominee is provided on pages 32 to 35 All directors are elected annually, and serve a one-year term until the next Annual Meeting. For the vote requirements, see Question 9 on page 6 of this proxy statement. All of the director nominees have consented to serve if elected. However, if any of the nominees should be unable or unwilling to stand for election at the time of the Annual Meeting, the Board may reduce the number of directors to be elected at the Annual Meeting, or designate a substitute. If a substitute is designated, proxy votes in favor of the original director candidate will be counted for the substituted candidate. At this time, the Board of Directors knows no reason why any of the nominees may not be able to serve as a director if elected.

Your Board unanimously recommends a vote FOR each of these directors.

Nominees for the Board of Directors

ROBERT J. DARNALL Director since 2000
Age 69
Mr. Darnall is the retired Chairman, President and Chief Executive Officer of Inland Steel Industries, Inc. (a carbon steel manufacturer and processor/distributor of industrial materials), a position held from September 1992 to October 1998. Mr. Darnall is also a director of Cummins, Inc.; HSBC North America Holdings, Inc.; Pactiv Corporation; and United States Steel Corporation.

JOHN G. DROSDICK Director since 1996
Age 64
Mr. Drosdick is Chairman, Chief Executive Officer and President of Sunoco, Inc. and Chairman of the Board of Directors of Sunoco Partners LLC, a subsidiary of Sunoco, Inc. and the general partner of Sunoco Logistics Partners L.P. Mr. Drosdick was elected Chairman and Chief Executive Officer of Sunoco, Inc. in May 2000 and Chairman of the Board of Sunoco Partners LLC in October 2001. Mr. Drosdick has been a director and President of Sunoco, Inc. since December 1996. He was also Chief Operating Officer of Sunoco, Inc. from December 1996 to May 2000. He is also a director of H.J. Heinz Corporation and United States Steel Corporation.

Table of Contents

Nominees for the Board of Directors

GARY W. EDWARDS
Age 66
Mr. Edwards has been a consultant in the energy field since December 2001. He was Senior Executive Vice President, Corporate Strategy & Development, of Conoco, Inc. (an integrated oil company, that merged with Phillips Petroleum Company in 2002), from November 1999 until his retirement in December 2001. He was Executive Vice President, Refining, Marketing, Supply & Transportation of Conoco from September 1991 until November 1999. From September 1991 to October 1998, Mr. Edwards was also a Senior Vice President of E. I. duPont de Nemours and Company (a chemical company that was Conoco s former parent company). Mr. Edwards is also a director of Entergy Corporation and Sunoco Partners LLC, the general partner of Sunoco Logistics Partners L. P.

URSULA O. FAIRBAIRN Director since 2001
Age 65
Ms. Fairbairn is President and Chief Executive Officer of Fairbairn Group LLC (a human resources and executive management consulting company), a position she has held since April 2005. She served as Executive Vice President, Human Resources & Quality, American Express Co. (a diversified global travel and financial services company), from December 1996 until her retirement in March 2005. She is also a director of Air Products and Chemicals, Inc.; Centex Corporation; Circuit City Stores, Inc. (until June 2008); and VF Corporation.

THOMAS P. GERRITY Director since 1990
Age 66
Dr. Gerrity is a Professor of Management at The Wharton School (the business school) of the University of Pennsylvania, a position he has held since 1990. He also served as Dean of The Wharton School from July 1990 through June 1999, and since 1999 has been Dean Emeritus. He is also a director of CVS Corporation; Hercules Incorporated; and Internet Capital Group, Inc. Until December 31, 2006, Dr. Gerrity was a member of the board of directors of Federal National Mortgage Association (Fannie Mae) and served as the chair of Fannie Mae s audit committee from January 1999 until May 2006, when he stepped down from the committee. Fannie Mae restated its audited financial statements for certain periods during which Dr. Gerrity was chair of the audit committee. For additional information, see Fannie Mae s reports filed with the SEC.

Table of Contents

Nominees for the Board of Directors

ROSEMARIE B. GRECO Director since 1998
Age 61
Ms. Greco is Director, Governor s Office of Health Care Reform for the Commonwealth of Pennsylvania, a position she has held since January 2003. She was founding Principal of GRECOventures Ltd. (a business investment and consulting partnership), a position she held from January 1999 until January 2003. Ms. Greco was Co-Chair of the Private Industry Council of Philadelphia (a private non-profit organization that is a resource for workforce development and job training) from August 1998 to December 1998, and Interim President and Chief Executive Officer of the Council from April 1998 to August 1998. From January 1998 until April 1998, she did consulting work. Ms. Greco was President of CoreStates Financial Corp. (parent company of CoreStates Bank) from May 1996 until August 1997, and President and Chief Executive Officer of CoreStates Bank (a financial institution) from August 1994 until August 1997. She was a bank director from April 1992 to August 1997. Ms. Greco is also a director of Exelon Corp. and Pennsylvania Real Estate Investment Trust; and is a trustee of the SEI I Mutual Funds of SEI Investments.

JOHN P. JONES, III Director since 2006
Age 57
Mr. Jones is Chairman and a director of Air Products and Chemicals, Inc., (an industrial gas and related industrial process equipment business), a position he has held since October 2007. Mr. Jones served as Chairman and Chief Executive Officer from September 2006 through October 2007, and Chairman, President, and Chief Executive Officer from December 2000 through September 2006. Mr. Jones is also a director of Automatic Data Processing, Inc.

JAMES G. KAISER Director since 1993
Age 65
Mr. Kaiser is Chairman, Chief Executive Officer and a director of Avenir Partners, Inc. (an automobile business), a position that he has held since December 1998, and President and a director of Kaiser Services, LLC (a business development company), a position that he has held since December 1998. Mr. Kaiser was engaged in developing businesses from January 1996 until December 1998. He retired as President, Chief Executive Officer and director of Quanterra Incorporated in January 1996, positions he had held since June 1994. Quanterra succeeded to businesses of the environmental analytical services division of International Technology Corporation and Enseco (a unit of Corning Incorporated) for which Mr. Kaiser had been President and Chief Executive Officer since June 1992. Mr. Kaiser is also a director of MeadWestvaco Corporation.

Table of Contents

Nominees for the Board of Directors

R. ANDERSON PEW Director since 1978
Age 71
Mr. Pew retired from Sunoco in May 1996 as Chief Executive Officer of Radnor Corporation (a real estate subsidiary of Sunoco), a position he had held since March 1995, and as President of Helios Capital Corporation (a leasing subsidiary of Sunoco), a position he had held since September 1977. Mr. Pew is a director of The Glenmede Corporation (a Pennsylvania holding company) and its wholly owned subsidiary, The Glenmede Trust Company, N.A., a provider of investment, trust and wealth management services.

G. JACKSON RATCLIFFE Director since 1998
Age 71
Mr. Ratcliffe is retired Chairman of the Board of Hubbell Incorporated (an international manufacturer of electrical and electronic products), a position he held from 1987 until September 2004, having been first elected to its Board as a director in 1980. He also served as its President and Chief Executive Officer from January 1988 until his retirement in July 2001. Mr. Ratcliffe is also a director of Hubbell Incorporated and Praxair, Inc.

JOHN W. ROWE Director since 2003
Age 62
Mr. Rowe has been Chairman, President and CEO of Exelon Corporation (an electric utility company) since November 2004. He has been Chairman and CEO since April 2002, serving as Co-CEO from October 2000 through April 2002, and as President from October 2002 through May 2003. He was Chairman, CEO and President of Unicom Corporation and Commonwealth Edison (electric utility companies) from March 1998 until October 2000, prior to the merger of Unicom and PECO Energy. Mr. Rowe is also a director of Northern Trust Corporation.

JOHN K. WULFF Director since 2004
Age 59
Mr. Wulff is Chairman of the Board of Hercules Incorporated (a manufacturer and supplier of specialty chemical products), a position he has held since December 2003. Mr. Wulff was first elected as a director of Hercules in July 2003 and served as Interim Chairman from October 2003 to December 2003. Mr. Wulff served as a Member of the Financial Accounting Standards Board (the private-sector organization responsible for establishing standards of financial accounting and reporting in the United States) from July 2001 until June 2003. From January 1996 until March 2001, Mr. Wulff was Chief Financial Officer of Union Carbide Corporation (a manufacturer of chemicals, plastics, industrial gases and carbon/graphite). During his fourteen years with Union Carbide, Mr. Wulff also served as Vice President and Principal Accounting Officer from January 1989 to December 1995, and Controller from July 1987 to January 1989. From April 1977 until June 1987, Mr. Wulff was an audit partner with KPMG and predecessor firms (accounting and consulting firms). Mr. Wulff is also a director of Celanese Corporation; Fannie Mae; and Moody s Corporation.

Table of Contents

Item 2. Approval of the Sunoco, Inc. Long-Term Performance Enhancement Plan II

The Sunoco, Inc. Long-Term Performance Enhancement Plan II, or LTPEP II, allows Sunoco to grant stock-based compensation awards in order to attract, retain and reward employees who contribute to Sunoco s long-term success. The persons eligible to participate in this plan are executives and other senior level employees, the approximate number of which is 200. Although directors are eligible to receive stock options under the plan, in 2003 the Company discontinued granting stock options to the Company s independent directors. The LTPEP II is administered by the Compensation Committee, which is comprised entirely of outside directors for purposes of Section 162(m) of the Internal Revenue Code. None of these directors receive additional compensation for administering the LTPEP II. The total number of shares of Common Stock that were authorized for issuance under LTPEP II was eight million (8,000,000) (as adjusted to reflect the August 1, 2005 2-for-1 stock split). As of December 31, 2007, 3,042,379 shares remained available for issuance under LTPEP II.

Sunoco intends to continue to use the LTPEP II to provide competitive incentive opportunities. However, Section 162(m) of the Internal Revenue Code, or IRC, does not allow publicly held companies to deduct compensation paid to certain executives, if it exceeds $1 million per officer for the year. Performance-based compensation plans, approved by shareholders at least every five years, are not subject to this deduction limit. Sunoco's shareholders last approved the LTPEP II at the May 2003 Annual Meeting.

Sunoco s Board of Directors proposes that you approve the continuation of the LTPEP II, amended and restated effective November 1, 2007, so that the compensation awards made under this plan to Sunoco s CEO and the next four most highly compensated executives may be deducted by Sunoco for federal income tax purposes.

The material features of the LTPEP II are described below:

Summary Plan Description: The following is only a brief summary of the material terms of the LTPEP II, and the types of awards that may be made. This summary does not describe all the terms of the plan. We urge you to read the complete text of the plan included as Exhibit A to this proxy statement. All share amounts have been adjusted to reflect the August 1, 2005 2-for-1 stock split.

Stock Options. Each stock option represents a right to buy one share of Sunoco's common stock. The maximum number of stock options that can be granted to a single participant in any calendar year is eight hundred thousand (800,000). The LTPEP II permits Sunoco to grant both non-qualified stock options and incentive stock options, qualified under Section 422 of the IRC. Sunoco has never granted incentive stock options from LTPEP II. The LTPEP II does not provide for "re-load" options.

- Exercise Price: The purchase price payable upon exercise of an option will not be less than the closing price of a share of Sunoco's common stock on the date the option is granted. The purchase price may be paid in cash or in shares of Sunoco common stock. The LTPEP II prohibits re-pricing of out-of-the-money options without shareholder approval.

- Term and Vesting: Each option is exercisable during a period fixed by the Compensation Committee, beginning no earlier than one year, and ending no later than ten years, after the date of grant. Options cannot be exercised after their term has expired. All outstanding options currently have a minimum vesting period of two years.

Table of Contents

- Transferability: Options may be transferred only by will, or by the laws of descent and distribution. During the participant s lifetime, the options are only exercisable by the participant or by the participant s guardian or legal representative.

- Change in control: Upon the occurrence of a change in control of Sunoco, all outstanding options will become immediately and fully exercisable.

- Termination: In the case of a participant terminated for just cause, all outstanding options will be canceled immediately. For a participant whose employment is terminated due to retirement, permanent disability, or death, vested options may be exercised for up to sixty (60) months following termination to the extent that the options are exercisable during that period. For a participant who dies *after* terminating employment, vested options may be exercised during the otherwise available remainder of the original term. In the case of a participant whose employment is terminated for any reason other than the foregoing, unvested options will terminate immediately, vested options granted *before* November 1, 2007 will terminate ninety (90) days after termination of employment, and vested options granted on or *after* November 1, 2007 will terminate: (a) ninety (90) days after termination of employment, in the case of a participant terminated either before, or more than two years after, a change in control; and (b) one (1) year after termination of employment, in the case of a participant terminated within two years following a change in control.

Limited Rights. Prior to December 2007, stock options had generally been granted along with an equal number of limited rights. Limited rights become exercisable only in the event of a change in control of Sunoco, and allow the participant to be paid, in cash, the appreciation on the option *in lieu* of exercising the option. The exercise of limited right results in cancellation of the related option. In December 2007, the Compensation Committee stopped granting limited rights in tandem with stock options.

Common Stock Units. Each common stock unit, or CSU, represents a right to receive one share of Sunoco common stock (or cash equivalent), together with an additional cash amount representing dividends accrued from date of grant. At the time of grant, the Compensation Committee may condition the ultimate vesting and payout of CSUs upon: (a) continued employment with Sunoco through a specified period of time not less than three (3) years, or (b) the attainment, during a specified period, of certain pre-determined objective performance goals (based upon financial or operating measures) for Sunoco. For performance-based CSUs, the number of shares actually earned varies with the level of attainment of applicable performance goals. To date, most CSUs granted under the LTPEP II have been performance-based, with three-year performance periods. The maximum number of CSUs that can be granted in any calendar year to a participant is three hundred thousand (300,000), and the maximum number of CSUs that can be granted under the plan are four million (4,000,000).

- Termination: For a participant whose employment is terminated due to death or permanent disability prior to the end of the specified period for CSUs conditioned upon continued employment, payout will occur on the first day of the second month following termination, in accordance with any applicable conditions set forth in the original grant agreement. For a participant whose employment is terminated due to death, retirement, or permanent disability prior to the end of the performance period for performance-based CSUs, payout will occur at the end of such period, as though the participant had continued to be employed through the applicable performance period and as, if and when the applicable performance goals have been met. For a participant whose employment is terminated as a result of a qualifying termination in connection with a change in control, CSUs will be paid out no later than the earlier of: (a) ninety (90) days after the change in control, or (b) two and one-half (2-1/2) months after the end of the year in which the change in control occurs. For a participant whose

Table of Contents

employment is terminated for just cause, or for any reason other than any of the foregoing, all outstanding CSUs will be canceled.

- Change in control: In the event of a change in control of Sunoco, CSUs will be paid out no later than the earlier of: (a) ninety (90) days after the change in control, or (b) two and one-half (2-1/2) months after the end of the year in which the change in control occurs, regardless of whether the specified period has ended, or applicable performance targets have been met.

  For performance-based CSUs, if the change in control occurs within the first twelve months after grant, the number of CSUs paid out will be the number granted, not adjusted for any performance factors. However, if the change in control occurs more than twelve (12) months after grant, the number of CSUs paid out will be the greater of: (i) the number of CSUs granted, not adjusted for the performance factors, and (ii) the number CSUs granted, multiplied by the applicable performance factors related to the Company s actual performance immediately prior to the change in control.

  For CSUs conditioned upon continued employment, the number of CSUs paid out will be the number outstanding.

Minimum Stock Ownership Guidelines. The Compensation Committee may restrict the sale or other disposition of shares of Sunoco common stock received, as a result of stock option exercises by, or CSU payouts to, participants failing to meet the minimum stock ownership guidelines, which are described on page 58 in this proxy statement.

Federal Tax Consequences. A participant will not realize any income and Sunoco will not receive any deduction for federal income tax purposes, upon the grant of stock options, limited rights or CSUs.

- For stock options, the participant will realize ordinary income (in an amount equal to the difference between the exercise price and the market value of shares of Sunoco common stock on the date of exercise) upon the receipt of shares, following the exercise. A participant will not recognize taxable income from the exercise of an incentive stock option, so long as the participant holds the stock received until the later of: two (2) years from the date of grant; or one (1) year from the date of exercise. The exercise of an incentive stock option results in a tax preference item for the alternative minimum tax of an amount equal to the difference between the stock option price and market value of the shares on the date of exercise.

- For limited rights, the participant will realize ordinary income (in an amount equal to actual cash received) when exercised and paid.

- For CSUs, the participant will realize ordinary income (in an amount equal to the market value of shares issued or cash paid, and the dividend equivalents paid), in the year in which the CSUs are paid out.

Income received by a participant pursuant to stock options, limited rights or CSUs received upon a change in control of Sunoco may be subject to a twenty percent (20%) excise tax as an excess parachute payment, as defined in the IRC. Sunoco will receive a deduction on its consolidated federal income tax return for the tax year in which the participant realizes ordinary income from the exercise of stock options or limited rights, or from the payment of CSUs.

Adjustments. In the event of a stock split or similar recapitalization event, the Compensation Committee, or Board of Directors, will make an appropriate anti-dilution adjustment. This adjustment may include a change in: (a) the number of shares reserved for issuance under the plan; (b) the number of shares subject to outstanding awards; (c) the exercise price of outstanding options; and/or (d) similar matters. In the event of a merger, spinoff, reorganization, liquidation, or similar event, the Compensation Committee, or Board of Directors, may: (a) make appropriate discretionary adjustments to the number and kind of securities reserved for issuance under the

Table of Contents

LTPEP II and/or outstanding awards, (b) cancel outstanding awards in exchange for value and (c) in certain circumstances, approve the substitution of other property (including cash or other securities of Sunoco, or other entities) for the shares of Sunoco common stock subject to outstanding awards.

Amendments. In general, the Compensation Committee may terminate or amend the LTPEP II at any time, without shareholder approval. However, shareholder approval is required for any amendment that would:

- Ø increase maximum award levels established in LTPEP II, including the maximum number of shares of Sunoco common stock that may be issued under the LTPEP II, except for the adjustments described above.
- Ø extend the term during which an option may be exercised beyond ten years from the date of grant; or
- Ø alter the terms of any previously granted option in order to reduce the exercise price, or cancel any outstanding option and replace it with a new one having a lower exercise price.

Plan Benefits. Because the awards are determined by the Compensation Committee, we cannot determine the benefits or amounts that will be received or allocated in the future under the LTPEP II.

Table of Contents

Item 3. Ratification of the Appointment of Ernst & Young LLP as Independent Registered Public Accounting Firm for the Fiscal Year 2008

The Audit Committee of the Board of Directors has appointed Ernst & Young LLP as our independent registered public accounting firm for the fiscal year 2008 subject to your ratification. Ernst & Young has served as our independent registered public accounting firm since 1996. They have unrestricted access to the Audit Committee to discuss audit findings and other financial matters. Representatives of Ernst & Young will attend the Annual Meeting to answer appropriate questions. They also may make a statement, if they choose to do so. All the work performed for Sunoco, Inc. by Ernst & Young pertaining to 2007 and the related fees were pre-approved by Sunoco s Audit Committee. The work performed by Ernst & Young pertaining to 2007 for Sunoco Logistics Partners L.P., a master limited partnership in which Sunoco has a 43% ownership interest, and related fees were pre-approved by the Audit/Conflicts Committee of Sunoco Partners LLC, the general partner of Sunoco Logistics Partners L.P. The Ernst & Young fees for 2007 and 2006 pertaining to work performed for Sunoco, Inc. and Sunoco Logistics Partners L.P. are set forth below.

Auditor Fees

	2007	2006
Audit Fees[1]	$ 5,466,315	$ 5,893,372
Audit-Related Fees[2]	$ 567,000	$ 763,962
Tax Fees[3]	$ 6,000	$ 6,000
All Other Fees	$	$
Total	$ 6,039,315	$ 6,663,334

NOTES TO TABLE:

1 Audit fees for 2007 and 2006 include fees related to the annual audit of Sunoco s and Sunoco Logistics Partners L.P. s consolidated financial statements and reviews of their financial statements included in quarterly reports on Form 10-Q, and other audit and attestation services related to statutory or regulatory filings. The 2007 and 2006 audit fees also include the audits of Sunoco s and Sunoco Logistics Partners L.P. s internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002.

2 Audit-related fees consisted of fees for consultation on accounting and reporting matters, audits of separate financial statements of subsidiaries and affiliates and employee benefit plans, and agreed upon procedures reports.

3 Tax fees for 2007 and 2006 include fees related to preparation and review of certain subsidiary tax returns.

Your Board unanimously recommends a vote FOR the ratification of Ernst & Young s appointment as independent registered public accounting firm for the fiscal year 2008.

Approval of Audit and Non-Audit Services by the Sunoco, Inc. Audit Committee

Under its pre-approval policy, concurrent with the appointment of the independent registered public accounting firm, the Audit Committee specifically pre-approves the recurring audit and audit-related services and estimated fees. In addition, the Audit Committee provides pre-approval of certain audit and audit-related services. This process provides the necessary flexibility to enable the Company to consult with the independent registered public accounting firm on routine audit and audit-related matters or to enable the independent registered public accounting firm to provide services that only they may provide. With regard to tax services, the Audit Committee provides pre-approval for recurring,

Table of Contents

routine tax compliance services, provided that the Audit Committee has reviewed and believes such services would not impair the independence of the auditor and are consistent with the Securities and Exchange Commission s and Public Company Accounting Oversight Board s independence rules. If circumstances arise during the year that require the engagement of the independent registered public accounting firm for additional services not contemplated in the original pre-approvals, the Audit Committee specifically reviews and pre-approves the services and estimated fees before the independent registered public accounting firm provides such services.

The Company has determined that it will not engage the independent registered public accounting firm for tax planning services for the Company or its executives. The Company will engage its independent registered public accounting firm for permitted non-audit services only if the Audit Committee determines that specific services are in the best interests of the Company and would not impair the independence of the independent registered public accounting firm.

Table of Contents

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors (the Committee) reviews Sunoco s financial reporting process on behalf of the Board of Directors. Management is responsible for the financial statements and the reporting process, including the internal control over financial reporting. The independent registered public accounting firm is responsible for expressing an opinion on the conformity of the audited financial statements with U.S. generally accepted accounting principles, and an opinion on the effectiveness of the Company s internal control over financial reporting. The Committee monitors these processes. A copy of the Audit Committee Charter, which specifies the purpose and responsibilities of the Committee, is available on Sunoco s web site at www.SunocoInc.com, and is also available upon request.

The Committee discussed with the Company s internal audit department and independent registered public accounting firm the overall scope and plans for their respective audits. In addition, the Committee has reviewed and discussed the audited financial statements and management s and the independent registered public accounting firm s evaluations of the Company s system of internal control over financial reporting contained in the 2007 Annual Report on Form 10-K. As part of this review, the Committee met with the General Auditor and the independent registered public accounting firm, with and without management present, to discuss the results of their audits and the overall quality of the Company s financial reporting.

As required by the standards of the Public Company Accounting Oversight Board, the Committee has discussed with the independent registered public accounting firm (1) the matters specified in Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended and (2) the independence of the independent registered public accounting firm from Sunoco and its management. The Committee obtained a written statement from the independent registered public accounting firm concerning independence as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. The Committee also considered the compatibility of non-audit services with the independent registered public accounting firm s independence.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board has approved, the inclusion of the audited financial statements and management s report on internal control over financial reporting in Sunoco s Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for filing with the Securities and Exchange Commission.

Respectfully submitted on February 26, 2008 by the members of the Audit Committee of the Board of Directors:

Robert J. Darnall, Chair

Thomas P. Gerrity

Rosemarie B. Greco

R. Anderson Pew

G. Jackson Ratcliffe

John K. Wulff

42

Table of Contents

EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT

The Committee has reviewed and discussed the Compensation Discussion and Analysis (CD&A) (on pages 44 through 63 of this proxy statement) with management and with the Committee s compensation consultant.

Based upon the review and discussions referred to in the preceding paragraph, the Committee recommended to the Board of Directors, and the Board approved, that the CD&A be included in Sunoco s proxy statement and incorporated by reference into Sunoco s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Respectfully submitted on February 26, 2008 by the members of the Compensation Committee of the Board of Directors:

Ursula O. Fairbairn, Chair

John P. Jones, III

James G. Kaiser

G. Jackson Ratcliffe

John W. Rowe

Compensation Committee Interlocks and Insider Participation: There are none.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Overview: Sunoco, Inc. (Sunoco or the Company) operates in a competitive, challenging and highly volatile industry. The Company is committed to continually improving its performance and enhancing its shareholder value, while maintaining its financial strength and flexibility. To do this, Sunoco s business strategy is focused on:

- Delivering excellence in health, safety and environmental performance;
- Increasing reliability and realizing additional operational improvements of Company assets in each of its businesses;
- Prudently managing expenses;
- Efficiently managing its capital spending with an increased emphasis on income improvement projects;
- Diversifying, upgrading and growing the Company s asset base through strategic acquisitions and investments;
- Divesting assets that do not meet the Company s return-on-investment criteria;
- Optimizing the Company s capital structure; and
- Returning cash to the Company s shareholders through the payment of cash dividends and the repurchase of Company common stock.

In order to be able to successfully implement Sunoco s business strategy, the Company must employ talented executives. There is increased competition for experienced, skilled, knowledgeable and capable executives in the energy industry, and specifically in the refining and marketing sector. The Company believes that the compensation program for the Named Executive Officers or NEOs, should be designed to provide a competitive level of total compensation necessary to attract and retain talented and experienced executives and to motivate the NEOs to contribute to Sunoco s success. The following provides a brief summary of the more detailed information set forth below in this Compensation Discussion and Analysis, or CD&A, section.

- Sunoco s compensation elements, their purpose/objective, and any associated performance metrics are summarized below:

Table of Contents

Compensation Element	Form	Compensation Objective	Company Performance Metrics
Base Salary	Fixed annual cash payments	Attract and retain executives	The percentage of increase in base salary reflects benchmarking against the Market Data and the Compensation Committee s subjective view of an individual s performance over the prior year
Annual Incentive	Cash	Attract and retain executives; motivate the executives to contribute to the Company s success in achieving short-term objectives, and align short-term compensation with the interests of shareholders	Focuses on Company short-term goals Operating Income after tax (60%) and ROCE as measured against peer companies (40%), the total of which is modified by Health, Environment and Safety goals
Long-Term Incentives	Stock options and performance-based common stock units	Attract and retain executives; motivate the executives to contribute to the Company s success in achieving long-term objectives; align long-term compensation with the interests of the shareholders	Focuses on Sunoco Common Stock Price, and on the Company s long-term goals equally weighted Total Shareholder Return and Earnings Per Share Growth, both as measured against peer companies
Other Benefits: Retirement, Savings Plans, health and other benefits	Cash or lump sum or annuity for retirement; cash for the savings plans; other	Attract and retain executives; provide incentive for long-term career with Sunoco	Not performance-based
Post-Termination Compensation	Compensation contingent on potential events	Attract and retain executives	Not performance-based
Perquisites	Limited perquisites	Primarily for the safety/security and productivity of the NEO	Not performance-based

- Sunoco generally targets the competitive median (as described below) for base salary, targeted annual incentive and targeted long-term incentives (i.e., total direct compensation).

- The major portion of each NEO s targeted compensation is at-risk compensation that is performance-based.

- Sunoco s annual incentive program is designed to result in payments that are closely correlated with Sunoco s earnings, return on capital employed relative to the performance of Sunoco s peer companies, and health, environmental and safety performance. Most Sunoco salaried employees and hourly manufacturing employees participate in an annual incentive plan utilizing the same performance factors used for the executive annual incentive plan.

- Sunoco s long-term incentive awards have been a mix of stock options and performance-based common stock units that are based on performance factors over a three-year period,

Table of Contents

which factors are measured relative to Sunoco s peer companies. These awards generally have been granted at a rate of less than 1% of outstanding shares per year.

- Sunoco maintains both tax-qualified retirement plans and non-qualified supplemental excess retirement plans. The NEOs participate in the same health and welfare benefits programs available to all employees.

- The NEOs do not have individual employment, severance or change in control agreements; however, they are eligible to participate in Company severance and change in control plans.

- Sunoco offers the NEOs limited perquisites. The Company provides these limited perquisites primarily for the safety/security and productivity of the NEOs.

Compensation Philosophy and Objectives: Sunoco s compensation program targets a compensation package (base salary and performance-based annual and long-term opportunities, i.e., total direct compensation) that at the time of approval and grant is generally at the competitive median (+/- 20%) of the Market Data (defined below), which includes Sunoco s peer companies, the broader oil companies, and general industry (as adjusted for relative revenues). Actual realized compensation, however, can be significantly lower or higher than the median based on the Company s performance as well as changes in the Company s share price. When performance objectives are exceeded, compensation is intended to be above the median, and when performance is below the performance objectives, compensation is intended to be below the median. The compensation program emphasizes performance-based compensation (pay-at-risk) that promotes the achievement of short-term and long-term business objectives, which are aligned with the Company s strategic plan. The compensation program is structured to link compensation to the Company s overall performance so that the actual compensation received by executives is aligned with the Company s performance in the areas of income, return on capital employed, health, environment and safety, or HES, and shareholder return. Sunoco s Compensation Committee, or the Committee, strives to maintain a balanced program so that no one performance measure dominates. Sunoco s compensation program focuses executives on exceeding the competition by including several objectives/measurements based on performance relative to peer companies. It also aligns executive compensation with the interests of Sunoco s shareholders by providing stock incentives and requiring significant shareholdings.

The Committee reviews the compensation program in a holistic manner, and makes changes that it deems to be appropriate and in the best interest of the shareholders.

- In the case of the performance-based common stock units, or CSUs, although the plan approved by the shareholders allows a maximum payout of 200%, the Committee decided to cap the maximum payout for awards granted in 2005, 2006 and 2007 at 150%. The payout of these awards may range from 0% to 150% based on actual results.

- For many years, the Company had provided a moderate level of perquisites to its executives. During 2005 and 2006, these perquisites were further reduced, and in many cases, eliminated. As a result, the NEOs have a limited number of perquisites. The limited perquisites that remain are provided primarily for the safety/security and productivity of the NEO. (See also page 59 in this CD&A.)

- Sunoco provides a pension program to its executives, including a nonqualified plan for benefits in excess of Internal Revenue Service limitations (the Sunoco, Inc. Pension Restoration Plan), and an executive retirement plan (the Sunoco, Inc. Executive Retirement Plan) that was designed to attract and retain mid-career senior executives. Since 1996, the ability to hire mid-career executives has been extremely important to Sunoco as two of its NEOs, Mr. Drosdick and Mr. Owens, and about 40% of the approximately 40 top executives, were mid-career hires. The Committee reviewed data regarding

46

Table of Contents

Sunoco s retirement plans and competitive analysis of other companies and their retirement benefits provided by Towers Perrin. These plans are designed to be competitive.

- The Company s Special Executive Severance Plan, or CIC Plan, was adopted to retain executives in the event of a potential change in control transaction, and to eliminate the uncertainty which such a transaction may raise among management, potentially resulting in the departure or distraction of key management personnel. In 2007, the Governance and Compensation Committees and the full Board conducted a comprehensive review of Sunoco s plans with change in control provisions. While it was found that Sunoco s current plans are generally consistent with prevailing market practices, Sunoco did make changes with regard to the calculation of severance to reduce how the bonus portion is calculated and modified the 280G tax gross-up related to any excise tax required under Section 280G of the Internal Revenue Code, or IRC. Sunoco also decided to stop granting limited rights in tandem with stock options. These changes are described in more detail later in this CD&A under Severance and Change-in-Control Benefits .

External Advisors and Internal Support: The Committee reviews the effectiveness and competitiveness of the executive compensation structure in the context of the foregoing philosophy and objectives, with the assistance of external consultants and internal executive and staff support. Towers Perrin has been providing consulting support to the Committee for several years. Towers Perrin collects comparative executive compensation data with regard to the senior executive team (including the CEO) for review by the Committee. A single senior Managing Partner of Towers Perrin has had the responsibility for working with the Committee. Towers Perrin does perform other work for management in the pension and actuarial areas, which work is under the responsibility of a different Managing Partner at Towers Perrin. Many shareholders and governance experts believe that a compensation committee should directly engage a consultant who is totally independent from management and receives no compensation from management. In 2007, the Committee directly engaged Semler Brossy Consulting Group as its independent compensation consultant. Semler Brossy has responsibility for working with the Committee, and will not perform any work for nor receive any compensation from management. The scope of Semler Brossy s engagement includes counseling and advising the Committee regarding the Company s executive compensation program. Towers Perrin will continue to provide data and analysis for management, some of which may be presented to the Committee for review. Semler Brossy will separately review Towers Perrin s information and will provide independent counsel to the Committee. Sunoco s Senior Vice President, Human Resources and Public Affairs (who is management s liaison to the Committee) and its Chief Governance Officer provide additional counsel, data and analysis as requested by the Committee. The CEO is not a member of the Committee, but he does attend Committee meetings. He makes recommendations on the compensation of the other NEOs. However, he is not in attendance when the Committee makes decisions with regard to his compensation. The CEO has input with regard to the setting of the goals or performance criteria for the incentive plans; however, the Committee, with the assistance and input of its independent compensation consultant, ultimately makes all final decisions with regard to setting goals or performance criteria. The CEO does not meet with the compensation consultants regarding compensation other than attending the Committee meetings where they are also in attendance or at the request of the Committee.

Compensation Methodology and Process: The Committee reviews the effectiveness and competitiveness of the executive compensation program in the context of the foregoing philosophy and objectives. The components of executive compensation at the Company include: (1) base salary; (2) annual incentives; (3) long-term incentives; (4) other benefits, including retirement benefits and savings plans; (5) post-termination compensation; and (6) perquisites. For 2007, Towers Perrin provided the Committee with information on compensation trends, and annually provides relevant Market Data (defined below) and alternatives for the Committee to consider when making compensation decisions. As part of its review, the Compensation Committee looks at the

Table of Contents

compensation practices of Sunoco s peer companies, other oil companies and companies in general industry. The data from other oil companies was the primary comparator group for most of the NEO positions since this is the industry that Sunoco operates in and those companies generally have comparable positions, but was adjusted for asset size and complexity. The peer companies included in compensation data reviewed for 2007 compensation consisted of ConocoPhillips, Frontier Oil, Hess, Lyondell, Marathon, Murphy Oil, Tesoro and Valero. In an effort to find the most appropriate mix of peer companies, the Committee has chosen companies that include similarly sized independent refiners and other companies with a significant refining presence. Because Sunoco and the Committee believe that the Company s direct competition for executive talent is broader than the peer group, the Committee generally reviews compensation practices of other companies in the oil industry (some or all of the companies to the extent that they have comparable job positions), and general industry (adjusted for relative revenues) (collectively Market Data). The oil industry and general industry data are obtained from the following surveys: Towers Perrin s Oil Industry Group Job Match Survey (which includes twelve companies: Anadarko Petroleum, British Petroleum, Chevron, ConocoPhillips, Devon Energy, ExxonMobil, Hess, Marathon, Occidental Petroleum, Shell Oil, Tesoro and Valero Energy) and Towers Perrin s U. S. CDB General Industry Executive Database (which includes data from approximately 400 companies). For comparison purposes, due to the variance in size among the companies in the general industry group, regression analysis, which is an objective analytical tool used to determine the relationship between data, is used to adjust the data for differences in company revenues to be comparable to Sunoco. For the Market Data used to determine the 2007 compensation, the general industry comparisons were developed using a three-year average revenue scope for Sunoco of $30 billion, which was less than Sunoco s actual 2006 revenues of approximately $36 billion (excluding excise taxes). Chemical company data is obtained from 24 companies from Towers Perrin s General Industry Executive Database, which is size adjusted. Towers Perrin, when compiling the Market Data, excludes any one-time awards given to executives of the other companies for special circumstances. The Committee reviewed the compensation data for each of Sunoco s senior executive positions, including each individual NEO, compared to the compensation of executives in similar positions with similar responsibility levels in the Market Data by pay type (including base salary, annual incentive, and long-term incentives, i.e., total direct compensation). In its review of the compensation for Mr. Drosdick and Mr. Hofmann, the Committee looked primarily at the compensation practices of other oil companies, but also looked at Sunoco s peer companies and general industry. For Mr. Owens, the Committee looked primarily at the other oil companies, as well as general industry. As part of the review of Mr. Fischer s compensation, the Committee looked primarily at comparative data from the chemical companies from Towers Perrin s General Industry Executive Database, but also considered the general industry data. When considering Mr. Dingus and Mr. Valutas compensation, the Committee focused on data from general industry since survey data for comparable positions among the other oil or peer companies were not available.

For the past four years, the Committee has been using tally sheets as a tool to assist in its review of executive compensation. The Committee has annually reviewed the tally sheets, which contain all components of the CEO s and the other NEOs current and historical (last 5 years) compensation, which helps place the compensation in context when the Committee is setting the current compensation. In addition, in consultation with Towers Perrin, management and other outside advisors, the Committee has annually reviewed the estimated compensation (e.g., potential severance, bonus, equity awards, retirement benefits, 280G tax gross-up, and the incremental cost of other compensation, as applicable) that would be received by the CEO and the other NEOs under various scenarios, including normal retirement and voluntary termination, involuntary termination, and involuntary termination due to a change in control of the Company. The tally sheets and the scenario information provide the potential cost to the Company. The review of the post-employment scenarios allows the Committee to see if the post-employment programs are working as intended. The Committee has concluded that current and future performance and results for shareholders, not prior compensation nor amounts realized or realizable from prior awards, should be the governing factors in

Table of Contents

setting current NEO compensation. The Committee believes that using prior compensation or amounts realized or realizable from prior awards in setting current compensation would send the wrong message to executives that they may be penalized as a result of prior success.

Annually, the CEO s performance is evaluated by the full Board of Directors. Subjective criteria that the Board of Directors considers includes: overall leadership, development and stewardship of Sunoco s long-term strategic plan and annual goals and objectives, development of an effective senior management team, provision for management development and succession, and effective communications with stakeholders. Based upon the conclusions reached as a result of the review of the CEO, together with data and information provided by the consultants, the Committee, in a session of Committee members only, along with their independent compensation consultant, determines and approves the CEO s compensation. Annually, the CEO provides an assessment of the performance of the other members of the senior management team and, with the assistance of Sunoco s Senior Vice President, Human Resources and Public Affairs, utilizing the competitive data provided by Towers Perrin, makes compensation recommendations to the Committee. The Committee reviews and approves the compensation of the other members of the senior management team. The Committee may exercise its discretion in modifying any recommended compensation or awards to any of the executives.

Elements of Compensation: The following charts and tables provide the percentage of total direct compensation for the CEO and the other NEOs represented by each major element described below, indicating the 2007 compensation that is at risk, i.e., is variable based on performance/business results. The percentages represent the 2007 target levels for each element at the time that they were approved by the Committee.

The differences in the compensation provided to each NEO are primarily due to their different roles in the organization, as well as how they compare to their job peers in the Market Data. The CEO s compensation is higher than the other NEOs due to his broader duties and responsibilities.

♦ ***Base Salary:*** Base salary is designed to compensate executives for the scope and level of responsibility and sustained individual performance. The salaries of the NEOs are reviewed on an annual basis, as well as at the time of promotion and other change in responsibilities. The Company s goal is to attract and retain executives, and to establish and maintain salaries within a range of competitive pay in the Market Data. The Committee strives to establish base salaries for the NEOs generally at the median (+/- 20%) of base salaries in the Market Data. The base salaries of the NEOs in 2007 were within this range. Base salaries are targeted at the median (+/- 20%), and may be adjusted by factors such as individual performance (including experience in position, scope of responsibilities, results achieved and future potential). The base salaries of the NEOs that were approved for 2007 are included in the Summary Compensation Table on page 66.

Table of Contents

♦ ***Annual Incentive:*** The Company s Executive Incentive Plan, which was approved by the shareholders, provides eligible executive employees with an annual incentive opportunity. The annual incentive awards for the NEOs are provided in order to promote the achievement of the Company s short-term business objectives by providing competitive incentive opportunities to those executives who can significantly impact Company performance. The annual incentive plan provides rewards based on the achievement of predetermined financial and HES goals.

The individual s annual incentive is determined by the following formula:

Individual s base salary for the plan year multiplied by the individual s incentive guideline percentage multiplied by the payout percentage, if any, and then adjusted up or down (up to 10%) to reflect HES performance.

The incentive guidelines of the NEOs for 2007 were as follows:

Name	2007 Guideline Incentive (% of Base Salary)
J. G. Drosdick	120%
T. W. Hofmann	70%
M.H.R. Dingus	65%
B. G. Fischer	65%
R. W. Owens	70%
C. K. Valutas	65%

These percentages are primarily determined based on Market Data; however, internal equity issues may be taken into consideration.

Each year, the Committee considers the Company s prior year s performance and its objectives and expectations for the Company in the upcoming year, as reflected in the Company s strategic plan. The Committee strives to establish performance goals that provide the appropriate balance between Company performance and its performance relative to its peer companies. For 2007, the Committee decided to continue to use operating income after tax and return on capital employed, or ROCE, relative to the peers as the two performance factors. The performance goals for 2007 were based on meeting weighted objectives for the following principal measurements:

Ø Performance relative to the Company s targeted operating income after tax of $820 million (weighted 60%); and

Ø The Company s performance relative to the peer group, as measured by ROCE (weighted 40%), with a maximum payout only if Sunoco ranked first among its peers:

51

Table of Contents

Sunoco Percentile Rank	Payout Factor
Highest	200%
90th%	175%
60th%	100%
25th%	50%
Lowest	0%

as modified (up or down) by certain HES performance goals.

Performance between percentages in the performance goals are straight-line interpolated.

The annual incentive plan utilizes three goals that are important in driving the Company s annual operating plan. The largest weight is given to operating income after tax which is derived from the annual operating plan, budgeting process and market forecasts. The use of operating income after tax as a factor assures that management continues to be focused on operations excellence. ROCE, the other major goal in the annual incentive plan, keeps management focused on getting the most out of existing assets and pursuing only those growth and investment opportunities which provide desired returns. Measuring ROCE relative to the peer companies, versus an absolute measure, mitigates the impact of industry-wide factors over which the NEOs have no control and assures that management is only rewarded above target on this goal when they outperform the competition. In addition, the Committee also determined that, in order to achieve maximum payout on this goal, Sunoco must rank first among the peer group. An HES score card is used as a third performance goal to reinforce that, along with financial success, management must be focused on Sunoco s strategy of excellence in HES performance, by continuing to protect Sunoco s employees and the communities in which the Company operates. Based on HES performance measured against the goals, the annual incentive may be modified up or down up to 10% (but not to exceed the 200% maximum payout). The HES component varies by business unit.

The goals selected for the annual incentive plan, and for the performance-based common stock unit portion of the long-term incentive plan, are company-wide, versus business unit or individual measures, because the Company and the Committee believe that it facilitates teamwork among the business units and members of the executive team to achieve results. Most Sunoco salaried and hourly employees participate in an annual incentive plan with the same performance goals as those used for the NEOs and other executives, which further facilitates teamwork across the organization.

The Company selected multiple measurements because it believes that no one metric is sufficient to capture the performance Sunoco is seeking to drive. It is recognized that no measurement or set of measurements can reliably measure actual performance in light of unanticipated opportunities and challenges.

The performance measures for the short-term incentive plan, and one of the measures for the performance-based CSU portion of the long-term incentive plan, utilize metrics that are not based on generally accepted accounting principles, or non-GAAP metrics.

(Total shareholder return, one of the metrics of the long-term incentive plan, is a measure of investment performance that is not a financial statement performance measure covered by GAAP.) The Company uses operating income after tax, which is net income adjusted to exclude extraordinary/special items. For the 2007 annual incentive, the

Table of Contents

special items that were excluded from Sunoco s net income were a gain related to the prior issuance of limited partnership units of Sunoco Logistics Partners L.P. to the public, a write off of a phenol line, a loss related to the sale of a terminal facility, and an accrual for a tentative settlement of certain litigation. ROCE is calculated by taking operating income after tax plus after-tax interest expense and dividing it by capital employed (total debt plus shareholders equity). Similar adjustments for extraordinary/special items were made to the net income of Sunoco s peer companies to compute their respective amounts of operating income after tax. The Company s Chief Financial Officer (CFO) or Comptroller reviews with the Committee accounting matters that may have an impact on the performance measures, including special income adjustments by the Company and proposed changes in accounting methodology. These matters are also reviewed with the Audit Committee. Towers Perrin also reviews the ROCE calculation used under the annual incentive plan for the Committee for consistency and reasonableness/appropriateness. On a quarterly basis, the CFO provides a review of the ROCE calculation and the extraordinary/special items excluded by Sunoco and its peer companies.

Before the payout of the annual incentive, if any, the Committee reviews performance data with management and with the compensation consultants, and determines the extent to which these goals have been achieved. Actual payout may range from 0% to 200% of the target amount, depending on achievement of Company goals, with payments increasing as Company performance improves. In the event that the Company achieves less than the target goals, participants in the plan may be entitled to receive a portion of the target percentage. If the Company attains results that exceed the target goals established by the Committee, participants will be entitled to receive a proportionately larger payment but in no event greater than two times the target percentage. Under the Executive Incentive Plan, the Committee has the discretion to reduce the amount payable, or to determine that no amount will be paid, even if the performance goals are met. The Committee did not exercise this discretion in connection with the payout of the 2007 annual incentive.

Despite significant market volatility, 2007 was another good year for the Company resulting from strong margins for refined products and positive contributions from the Company s non-refining businesses. As a result of the Company s performance, the 2007 annual incentives that were paid out ranged between 126% and 130% of target for the NEOs. The Company s 2007 operating income after tax was $833 million and its ROCE was 21.0%. The Company achieved the 86.1th percentile of the peer group in 2007 in ROCE. The annual incentives that were earned for 2007 are included in the Summary Compensation Table on page 66 under Non-Equity Incentive Plan Compensation. The annual incentive that was paid to each NEO as compared to the targeted amount approved by the Committee is reflected in the table below.

Name	2007 Annual Incentive Award Targeted Amount ($)	2007 Annual Incentive Award as a % of Target (rounded to nearest percent)	2007 Actual Incentive Award Payment ($)
J. G. Drosdick	1,440,000	127	1,826,496
T. W. Hofmann	367,500	127	466,137
M. H. R. Dingus	279,500	126	352,701
B. G. Fischer	282,750	130	367,688
R. W. Owens	337,400	128	430,657
C. K. Valutas	278,850	127	353,693

Table of Contents

♦ ***Long-Term Incentive Awards:*** Long-term incentive awards for the NEOs are granted under the Company s Long-Term Performance Enhancement Plan II, or LTPEP II, which was last approved by the shareholders in 2003, in order to promote the achievement of the Company s long-term strategic business objectives. The purposes of the long-term incentive awards are: to align the executives compensation with the interests of shareholders by creating a direct linkage between the participants rewards and shareholders gains; provide management with the ability to increase equity ownership in the Company; provide competitive compensation opportunities that can be realized through attainment of performance goals; and provide a retention incentive for management.

Since 1996, the Company s long-term compensation program has consisted of a mix of stock options and performance-based CSUs. Each year the Committee evaluates the appropriate value mix of stock options and performance-based CSUs, and reviews data from the peer companies and other oil companies regarding typical long-term incentive mix. For the awards granted in December 2007, the Committee reviewed the value mix with the compensation consultants. In considering the different vehicles used by the peer companies and other oil companies it determined that the data supported the Committee s practice of splitting the target value of the long-term incentives equally between stock options and performance-based CSUs. As structured at Sunoco, performance-based CSUs and stock options balance relative versus absolute performance and intermediate-term (three years) versus long-term (up to ten years) performance, respectively. While the Company s ultimate objective is the creation of absolute long-term stock price growth and shareholder value, relative measurement of intermediate-term performance through the performance-based CSUs recognizes the cyclical nature of the industry in which the Company operates and reinforces the importance of exceeding peer performance on a sustained basis.

Each year in December, in connection with the review and approval of other elements of the NEOs compensation, the Committee reviews and approves all long-term incentive awards. In determining the appropriate long-term value for each executive, the Committee reviews the level of responsibility, the total compensation of each senior executive, and the Market Data presented by the compensation consultant, and also looks at internal equity among the executives. The long-term compensation for each position is targeted at the median (+/- 20%) of the Market Data, but the award may be adjusted (up or down) for internal equity. The target value of stock options is determined by using the Binomial option pricing model. The targeted values of the stock options and performance-based CSUs that were approved by the Committee in December 2007 for each NEO were within the range of the median (+/- 20%) of the Market Data, except for Mr. Fischer, whose targeted long-term incentive values were increased for internal equity purposes. Additional information about these awards is included in the Grants of Plan-Based Awards in 2007 Table on page 71.

Ø *Stock Options:* Stock options are designed to provide long-term equity-based compensation based on future appreciation of the Company s common stock price. The grant date is the date of the meeting at which the stock options are granted. The exercise price for these grants is equal to the closing price of a share of Sunoco common stock on the date the stock option is granted. Options are exercisable beginning two years from the date of grant and have a term of ten years from the date of grant. The plan prohibits the repricing of out-of-the-money stock options and does not provide for reload options. Prior to December 2007, stock options had generally been granted along with an equal number of limited rights. Limited rights become exercisable only in the event of a change in control of the Company and permit the holder to be paid in cash the appreciation on a stock option instead of receiving shares by exercising the option. In 2007, the Committee decided to award stock options without associated limited rights because the Market Data showed that this approach was more consistent with predominant market practice. As noted below under Executive Stock Ownership Guidelines, executives who have not met their stock ownership guidelines are expected to retain all of their after-tax profit from option exercises in shares of stock. Further, senior executives who are at or above their respective ownership guideline are expected to retain at least 50% of the after-tax profit from option exercises in shares of stock for at least one year.

Table of Contents

Ø *Performance-Based Common Stock Units:* The performance-based CSUs provide intermediate-term incentive compensation that has been designed to pay out only if certain objective performance measures have been met over a three-year period. For the 2007 awards, the Committee decided to retain the same performance measures that had been approved for the 2005 and 2006 performance-based CSU awards. Payout will depend upon achievement by the Company of certain performance levels based on two equally weighted performance measures relative to the Company s peer group total shareholder return, or TSR, (for the three-year performance period) and earnings per share, or EPS, growth (measured against the prior three-year period). Consideration was given to a balanced incentive approach selecting those measures believed to be most important to the shareholders and recognizing that over longer time periods, it is extremely difficult to predict market conditions. Although the Plan, as approved by shareholders, allows for a maximum payout of 200%, the Committee decided to cap the maximum payout for the 2005, 2006 and 2007 awards at 150%. The actual payout of these awards may range from 0% to 150% based on actual results. Further, the Committee determined that maximum payout can only occur if the Company ranks first among the peer group in both performance measures. The performance measures approved by the Committee for the CSUs awarded in December 2007 are the following:

- TSR measured relative to the peer companies (weighted 50%):

Sunoco TSR Percentile Rank	**Payout Factor**