ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2488 SCOMM 107: HOUSE SPEC. COMM. ECONOMIC DEVELOPMENT, 1997-98

RECORDS CERTIFICATION

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SCOMM 107: HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, 1997-98

MEMBERS:

REPRESENTATIVE JERRY SANDERS, CHAIR
REPRESENTATIVE ALAN AUSTERMAN
REPRESENTATIVE ETHAN BERKOWITZ
REPRESENTATIVE MARK HODGINS
REPRESENTATIVE IVAN IVAN
REPRESENTATIVE J. ALLEN KEMPLEN
REPRESENTATIVE WILLIAM K. ("BILL") WILLIAMS

Established by House Resolve No. 1, 1997.

Contents: 2 files. 8 cassettes are also available of meetings held 4/10/97 - 4/30/98.

LIST OF FILES (PAGE 1)	MICROFICHE #
1. HEARING, 2/24/98: FUEL PRICES AND THE EFFECT ON THE ECONOMY	
2. HB 469, APPROVE SALE OF ROYALTY OIL TO MAPCO	

SCOMM

107:1

FOR IMMEDIATE RELEASE FEBRUARY 18, 1998

ECONOMIC DEVELOPMENT COMMITTEE

CONTACT: REPRESENTATIVE JERRY SANDERS, CHAIR
465-4945

ECONOMIC DEVELOPMENT
FUEL COSTS AND THE EFFECT ON THE ECONOMY

THE ECONOMIC DEVELOPMENT COMMITTEE WILL HOLD A HEARING AT THE CAPITOL BUILDING, ROOM 17, TUESDAY, FEBRUARY 24, 1998 AT 2:00 P.M. THE PURPOSE OF THE MEETING WILL BE TO LOOK INTO THE EFFECT OF HIGH FUEL COSTS ON ECONOMIC DEVELOPMENT IN ALASKA. TELECONFERENCES WILL BE HELD AT THE LEGISLATIVE INFORMATION OFFICES.

RECENT NEWS ARTICLES ON GAS PRICES GOING BELOW $1 PER GALLON ELSEWHERE IN THE COUNTRY HAS GENERATED INTEREST AS TO WHY ALASKA PRICES HAVE NOT REFLECTED THE SAME SIGNIFICANT DECREASE. INDUSTRY LEADERS AND CONSTITUENTS HAVE SHOWN CONCERN ABOUT FUEL PRICES AND THE EFFECTS THEY HAVE ON THE ALASKAN ECONOMY. REPRESENTATIVE SANDERS, CHAIRMAN OF THE ECONOMIC DEVELOPMENT COMMITTEE, HAS CALLED THE MEETING TO FIND OUT:

1. ARE THE ALASKA PRICES OUT OF LINE WITH THE OTHER 49 STATES?
2. IF SO, WHY?
3. WHAT EFFECT DOES THIS HAVE ON ECONOMIC DEVELOPMENT IN ALASKA?
4. WHAT, IF ANYTHING, THE LEGISLATURE CAN DO TO INFLUENCE PRICES?

###

Anchorage Daily News
Saturday, February 14, 1998 ★

California gas price hits 99.9¢

Say it isn't So.

The Associated Press

LOS ANGELES — A worldwide oil glut and fierce competition among retailers have pushed gasoline prices below $1 per gallon at some Southern California stations, yielding a windfall for motorists while pinching dealers' profits.

Prices for unleaded regular at self-serve pumps dropped to 99.9 cents per gallon at some stations this week as a nationwide price slide reached the region, the nation's biggest gasoline market.

"Your prices have been way out of line for about three months. It's catching up to you," William Berman of the Pump Price Report newsletter said Friday.

Stations offering gasoline at or near the dollar mark were attracting motorists in Los Angeles and Orange counties on Friday. Station operations priced above the competition prepared to make cuts to stay competitive.

Julie Peak, who operates an Arco station in the Granada Hills area of Los Angeles, was keeping busy Friday with her pumps set at $101.9, but expected Arco to order her to cut the price to 99.9 cents by Friday night or this morning. Some stations in her area, including one just a few blocks away, were turning away customers with prices already at 99.9 cents, she said.

"My friends went to them. I said, 'It's only 2 cents. It's not that big a difference,'" an exasperated Peak said. "When it's 99 cents, people go crazy."

California prices still are higher than in some parts of the country. According to the Oil & Gas Journal's most recent survey, taken on Feb. 4, Oklahoma City stations were selling gasoline for as little as 90.3 cents per gallon. In Atlanta, the price was 90.7 cents and Detroit, 97.6 cents.

Nationally, the average price of unleaded regular has fallen 7 cents to $1.14 since the beginning of the year, said Trilby Lundberg, publisher of the biweekly Lundberg Survey, which checks prices at 10,000 gasoline stations nationwide.

Prices typically are higher in California because of high state taxes and strict clean air regulations that require more expensive, cleaner burning blends of gasoline.

Motorists who buy the cheap gas are benefiting from several factors, including a worldwide oversupply of crude oil that has been pushing prices down for weeks across the nation.

The glut is due in part to increased production by the 11-nation Organization of Petroleum Exporting Countries. It also is partially a result of the financial crisis in Asia. Asia's demand has dropped sharply in recent weeks.

– a Constituent who was visiting Two Weeks ago. Said it was 87¢

Distributed by Representative Sanders

Appendix B

Comparision of Highway Gasoline Tax Rates

October 1997

Nope

Not

Taxes

State	Rate (¢ per gallon)	Other Tax[(1)] (¢ per gallon)	Total (¢ per gallon)	Rank
Alabama	16	4.1	20.1	30
ALASKA	**8**	**0**	**8**	**50**
Arizona	18	1	19	37
Arkansas	18.5	0.2	18.7	40
California	18	10.0	28	6
Colorado	22	0	22	23
Connecticut	36	4.3	40.3	1
Delaware	23	0	23	18
Florida	12.8	9.8	22.6	22
Georgia	7.5	4.3	11.8	48
Hawaii	16	19.6	35.6	2
Idaho	25	0	25	14
Illinois	19	6.8	25.8	10
Indiana	15	4.4	19.4	36
Iowa	20	1	21	28
Kansas	18	1	19	37
Kentucky	15	1.4	16.4	46
Louisiana	20	0	20	31
Maine	19	0	19	37
Maryland	23.5	0	23.5	17
Massachusetts	21.5	0	21.5	26
Michigan	19	6.8	25.8	10
Minnesota	20	2	22	23
Mississippi	18	2.4	20.4	29
Missouri	17	0	17	43
Montana	27	0.8	27.8	7
Nebraska	24.5	0.8	25.3	13
Nevada	23	10.3	33.3	3
New Hampshire	18	1.7	19.7	35
New Jersey	10.5	4	14.5	47
New Mexico	17	1	18	42

New York	8	22.4	30.4	4
North Carolina	22.6	0.3	22.9	21
North Dakota	20	0	20	31
Ohio	22	0	22	23
Oklahoma	16	1	17	43
Oregon	24	0	24	16
Pennslyvania	12	14.8	26.8	8
Rhode Island	28	1	29	5
South Carolina	16	0.8	16.8	45
South Dakota	21	2	23	18
Tennesee	20	1.4	21.4	27
Texas	20	0	20	31
Utah	24	0.5	24.5	15
Vermont	19	1	20	31
Virginia	17.5	0.8	18.3	41
Washington	23	0	23	18
West Virginia	20.5	4.9	25.4	12
Wisconsin	23.8	3	26.8	8
Wyoming	9	0	9	49
Federal	**18.3**	**N/A**	**18.3**	**N/A**
U.S. Average*	**17.8**	**4.8**	**22.6**	**N/A**

(1) Includes state sales tax. gross receipts tax and underground storage tank taxes.

State sales taxes are based on selected city average retail gasoline prices as of August 22, 1997.

* Weighted average

SOURCE: *American Petroleum Institute,* *A Summary of Nationwide and State-by-State Motor Fuel Taxes as of September 1997*.

Archives

Tuesday, December 2, 1997

Gasoline prices drop - elsewhere

Last modified at 3:09 p.m. on Tuesday, December 2, 1997

By MARK SABBATINI
THE JUNEAU EMPIRE

Gas prices have declined nationally during the past two months and local wholesalers say they are paying less, but the difference isn't showing up at the pump.

The reason, officials said, is somebody is making more money.

A little more info you may have missed.

The average price for a gallon of self-serve regular unleaded at Juneau's nine gas stations was $1.4478 on Monday, with stations' prices largely unchanged in recent months. A national survey of 10,000 stations revealed an average price of $1.1953 about 10 days ago, down from $1.2742 on Sept. 5, said Trilby Lundberg, owner of Lundberg Survey in Camarillo, Calif.

"I would not be surprised if prices in most cities and the national average falls again because crude oil has slipped" following an agreement by OPEC to boost production, she said today.

Local officials agree Juneau's prices are based on "what the market will bear," although there is disagreement about who is profiting from the decrease in prices. One official said service station operators may be recovering money lost during an earlier price hike, while another said the money may be going to out-of-state corporate offices that control prices.

Prices at other stations in Alaska are also generally not reflecting the national decrease.

Dick Bevens, marketing manager for Petro Marine Services in Southeast Alaska, said his company's wholesale prices have dropped at least a nickel. He said some service stations may not be lowering their prices now because they remained relatively stable during a summer wholesale price increase.

"You can almost see what service station dealers are feeding their families when," he said. "Sometimes it was steak, sometimes it was hot dogs."

A June survey by the Empire found gas prices between $1.42 and $1.46 a gallon. Prices rose a few cents in August - a temporary increase at some stations - with current prices between $1.42 and $1.48 a gallon.

Bevens said some Seattle gas stations experienced fluctuations as high as 20 cents a gallon.

Some local service stations may be paying the same amount for their gas despite the price drop, said Jeff Hansen, manager of Taku Oil.

He said his company's buying price has dropped 8 cents a gallon during the past two months. But while the gas goes directly from Taku Oil's tanks to three local Union 76 stations, he said Phoenix-based TOSCO Corp. gets to buy the gas and resell it to the stations at whatever price it sets.

"We've seen over time the large companies like Unocal (whose retail operations were purchased by TOSCO) or Chevron in the past will set prices in a town according to what the market's doing," he said. "That's not unusual anywhere."

TOSCO officials did not return phone calls seeking comment this morning.

Eric Hansen, manager of De Hart's Auke Bay Store, said it actually costs him 6 cents a gallon more to buy gas now from his supplier, Delta Western, than it did two months ago. But he said his price of $1.43 a gallon hasn't changed because "I pretty much stay competitive with our competitors down the road."

Mapco Express is generally cited by officials as setting the trend for local prices. Juneau prices dropped by up to 25 cents a gallon when they first opened a store in 1994, although prices have crept up since.

There appear to have been few price drops in other Alaska cities in recent months.

Cascade Convenience Center in Sitka is charging $1.62, below the price in a June survey but 6 cents higher than two months ago, said Paul Kerber, a Petro Marine employee. A Ketchikan's station's price has increased 6 cents a gallon to $1.62 since June and an Anchorage station remained even at $1.30.

The exception is Fairbanks where some prices have fallen by 10 cents or more a gallon, to below $1.30 a gallon, because of a recent Mapco opening.

MAPCO ALASKA PETROLEUM INC.

Jeffry J. Cook
VICE PRESIDENT
EXTERNAL AFFAIRS & ADMINISTRATION

April 2, 1998

Senator Frank H. Murkowski
UNITED STATES SENATE
322 Hart Senate Office Building
Washington, D.C. 20510-0202

Via Fax through Andrew Lundquist to (202) 224-4068

Dear Senator Murkowski:

There have been several articles in the Alaska newspapers since your press conference of March 27, 1998, at which you expressed concerns about gasoline prices in Alaska. We would have preferred to provide information and answers to some of your questions prior to the news conference, but I will take this opportunity to respond on behalf of MAPCO.

First, I need to note that crude oil is not the only component or cost involved with refining gasoline. Crude cost accounts for less than half of the retail price of gasoline. MAPCO and other Alaska refiners pay fair market value for the crude we purchase and we pay a pro-rated tariff to get it to our refinery. For one of our crude contracts with the State of Alaska, MAPCO pays a $.15 per barrel premium for the crude oil.

The other costs of refining product in Alaska are all higher than at lower 48 refineries. Electricity is an ingredient of refining and we pay several million dollars per year to GVEA for electricity. We pay twice the cost for electricity here compared to our Memphis refinery. And electricity costs are two to three times higher here than for refineries in the Pacific Northwest. The chemicals, fuel, labor and transportation components of refining and distributing our refined product are all considerably higher here than in the lower 48 states. The average rate of pay at our North Pole Refinery is about $10.00 per hour higher than for comparable positions at our Memphis refinery. This is a 50% higher cost for labor at our Alaska refinery. Alaska has some of the most stringent environmental standards that impact costs at the refining, wholesale and retail levels. In addition, MAPCO paid a $30 million quality bank penalty in 1997 for the 600 million gallons of refined product sold, which equates to $.05 per gallon. Or you can look at the quality bank penalty as adding $2.10 to the cost of each barrel of crude we refine. The $70 million jet fuel expansion we are currently doing at our refinery would cost in the $45 to $50 million range in Memphis. So it follows that refined product prices will also be higher in Alaska than elsewhere in the Country.

But the prices in Alaska are much lower than they would be without the presence of the Alaska refiners. When I left for college at the University of Oregon driving down the Alcan Highway with Jim Dodson in the fall of 1963, the price of gasoline in Fairbanks was around $.55 per gallon. We arrived in Eugene, Oregon, and paid about $.26 per gallon. It was after 1969 when Tesoro started refining in Alaska that prices dropped. In 1978 gasoline was $.859 in Fairbanks

1150 H & H LANE • NORTH POLE, ALASKA 99705 • PHONE (907) 488-2741 • FAX (907) 488-0074 • EMAIL: jeffc@mapcoinc.com

and it was $.609 in Eugene. The per cent age price difference had dropped considerably by 1978. MAPCO started refining gasoline in 1985 and prices dropped again. Today the price of gasoline in Fairbanks is $1.209 and in Eugene, Oregon it is $1.109. The gap has narrowed considerably. I should note that today the price of the Fairbanks Daily News-Miner is $.75 and the cost of the Eugene Register Guard is $.50. The news paper here costs 50% more than in Eugene, while the gasoline is only 9% more in Fairbanks.

I also wanted to point out that some of the data you used in analyzing gasoline prices was not correct as pertains to the Fairbanks and Anchorage markets. The data provided to you by AAA appeared to show a price of $1.269 for Alaska. The Fairbanks price is $1.209 and the Anchorage price is about $1.159. So the after tax price of Alaska gasoline is in the $.89 to $.94 per gallon range as opposed to $1.00 per gallon. The price of gasoline in the bush areas is really not relevant to the analysis in my opinion since they can only receive fuel once or twice a year in relatively small volumes.

MAPCO is proud of our refining activity and the positive influence we have had on fuel prices over the 20 years we have operated at our North Pole Refinery. We are proud that in 1998 we supported 688 Alaskan vendors with $450 million in spending. We spent more with everyone of those vendors than we would have for comparable goods or services in the lower 48 States. But that is a fact of life in Alaska. Our presence here means that $450 million multiplies around the Alaska economy a number of times and helps thousands of Alaskans directly or indirectly. As an example, we pay approximately $1.8 million in property taxes that are shared between the Fairbanks North Star Borough and the City of North Pole. Our refining and retail operations employ about 500 Alaskans with a total for payroll and benefits of approximately $20 million per year. This payroll amount is in addition to the total paid to vendors in 1997.

Earlier this week I provided Andrew Lundquist with three graphs showing that our price of gasoline, jet fuel and diesel fuel have fallen as fast, and in some cases faster, than crude oil prices have fallen. We feel we have been very fair and sensitive to the Alaskan consumer, and we pledge to maintain that sensitivity and fairness in the future.

Please let me know if I can answer questions or provide clarification on the issue of gasoline and other fuel prices in Alaska.

Sincerely,

Jeffry J. Cook, Vice President External Affairs
MAPCO ALASKA PETROLEUM Inc.

Alaska State Legislature

Chairman - Economic Development Committee

REPRESENTATIVE
JERRY SANDERS
District 19

Anchorage
716 W. 4th Ave.
Anchorage, AK 99501
(907) 258-8199

State Capitol
Juneau, AK 99801-1182
(907) 465-4945

Official Business

COMMITTEES:
Labor and Commerce
Transportation

HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT
"Fuel Costs and The Effect on Economic Development"
April 23, 1998
3:00 p.m.

Retail Prices as of March 16, 1998 – Crude based on $12.60 per barrel

	Anchorage	Juneau	Fairbanks	California
	1.179	1.349	1.259	1.069
Crude	.30	.30	.30	.30
	.879	1.049	.959	.769
State Tax	.08	.08	.08	.28
	.799	.969	.879	.489
Federal Tax	.18	.18	.18	.18
	.619	.789	.699	.309
Dealer Markup	.20	.20	.20	.13
Refining & Distr.	.419	.589	.499	.179

1. If Alaska's refinery portion of this chart were only double we would not be holding these investigations.

2. Why would fuel refined in Fairbanks be shipped to Anchorage at a cost of $.06 to $.10 and sold for $.08 less?

3. Why does Tesoro, who has 39% of the Alaskan market, ship product to the west coast where it brings a return of $.18 minus shipping charges instead of selling it in Alaska for $.40 or so?

Sec. 38.05.183. Sale of royalty.

(a) The sale, exchange or other disposal of a mineral obtained by the state as a royalty under AS 38.05.182 , or the sale, exchange or other disposal in whole or in part of a right to receive future mineral production under a state lease under this chapter, shall be by competitive bid and the sale, exchange or other disposal made to the highest responsible bidder, except that competitive bidding is not required when the commissioner, after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board under AS 38.06.050, determines that the best interest of the state does not require it or that no competition exists.

(b) When competitive bids are required, the commissioner, after prior written notice to the Alaska Royalty Oil and Gas Development Advisory Board, may reject all bids on a determination that because of the amount of the bids, the lack of responsibility on the part of the bidders, or for reasons consistent with the criteria set out in AS 38.06.070, the acceptance of the bids would not be in the best interest of the state.

(c) If the commissioner determines that a sale, exchange or other disposal of a mineral obtained by the state as a royalty under AS 38.05.182 or of a right to receive future mineral production under a state lease under this chapter shall be made otherwise than by competitive bid, and the Alaska Royalty Oil and Gas Development Advisory Board has been notified in writing of that determination, the commissioner shall make public in writing the specific findings and conclusions upon which that determination is based.

(d) Oil or gas taken in kind by the state as its royalty share may not be sold or otherwise disposed of for export from the state until the commissioner determines that the royalty-in-kind oil or gas is surplus to the present and projected intrastate domestic and industrial needs. The commissioner shall make public, in writing, the specific findings and reasons on which the determination is based.

(e) When a sale, exchange or other disposal of oil or gas taken in kind by the state as its royalty share, or a sale, exchange or other disposal in whole or in part of a right to receive future royalty oil or gas, under a state lease under this chapter is made other than by competitive bid, the sale, exchange or other disposal shall be awarded by the commissioner to the prospective buyer whose proposal offers the maximum benefits to citizens of the state. **The commissioner shall consider**

(1) the cash value offered;

(2) the projected effects of the sale, exchange or other disposal on the economy of the state;

(3) the projected benefits of refining or processing the oil or gas in the state;

(4) the ability of the prospective buyer to provide refined products or by-products for distribution and sale in the state with price or supply benefits to the citizens of the state; and

(5) the criteria listed in AS 38.06.070 (a).

Sec. 38.06.070. Criteria.

(a) In the exercise of its powers under AS 38.06.040 (a) and 38.06.050 the board shall consider

(1) the revenue needs and projected fiscal condition of the state;

(2) the existence and extent of present and projected local and regional needs for oil and gas products and by-products, the effect of state or federal commodity allocation requirements which might be applicable to those products and by-products, and the priorities among competing needs;

(3) the desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale, exchange or other disposition of oil and gas or both;

(4) the projected social impacts of the transaction;

(5) the projected additional costs and responsibilities which could be imposed upon the state and affected political subdivisions by development related to the transaction;

(6) the existence of specific local or regional labor or consumption markets or both which should be met by the transaction;

(7) the projected positive and negative environmental effects related to the transaction; and

(8) the projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investments.

(b) When it is economically feasible and in the public interest, the board may recommend to the commissioner of natural resources, as a condition of the sale of oil or gas obtained by the state as royalty, that

(1) the oil or gas be refined or processed in the state;

(2) the purchaser be a refiner who supplies products to the Alaska market with price or supply benefits to state citizens; or

(3) the purchaser construct a processing or refining facility in the state.

(c) The board shall make a full report to the legislature on each criterion specified in (a) or (b) of this section for any disposition of royalty oil or gas that requires legislative approval. The board's report shall be submitted for legislative review at the time a bill for legislative approval of a proposed disposition of royalty oil or gas is introduced in the legislature.

AAA Alaska

NEWS RELEASE

1-800-332-6119 ext. 8130

SUBJECT:

FOR RELEASE:

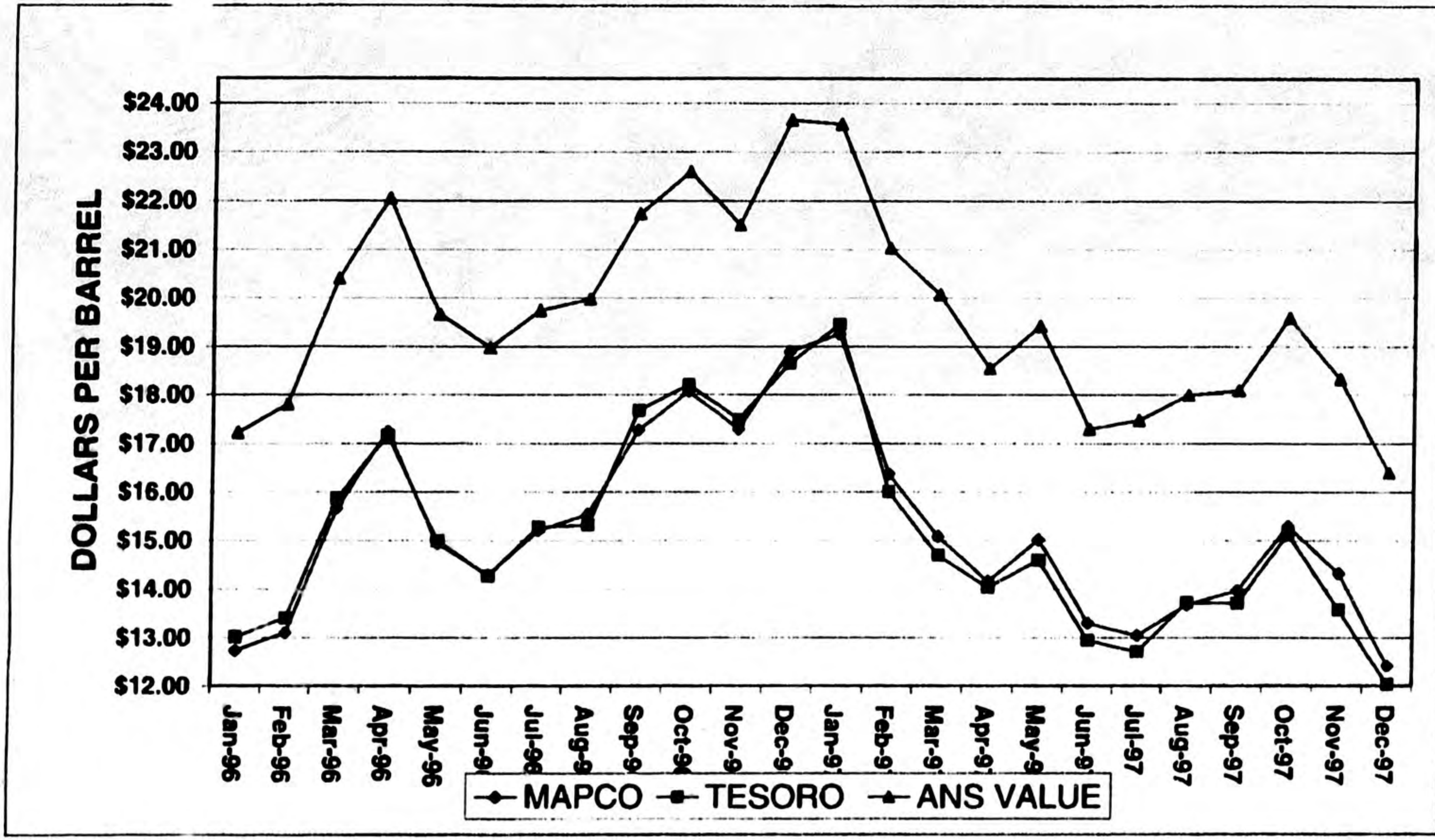
TODAY'S DATE:

CONTACT:

February 20, 1998
Memo
TO: Mike
FROM Sue Akey
here is some history - let me know if you need more information. 1-800-332-6119 EXT 8130

Date	2 Sta Anchorage	6 sta. Alaska Average	321 Sta National Ave
Feb 98	1.199	1.327	1.114
Dec. 97	1.279	1.354	1.215
Aug. 97	1.349	1.415	1.263
July 97	1.315	1.395	1.232
June 97	1.349	1.391	1.253
May 97	1.329	1.402	1.242
Apr 97	1.329	1.402	1.253
Jan. 97	1.304	1.347	1.271
		.08	.226

ROYALTY IN KIND PER BARREL PRICE
For the Two Years Ended December 31, 1997

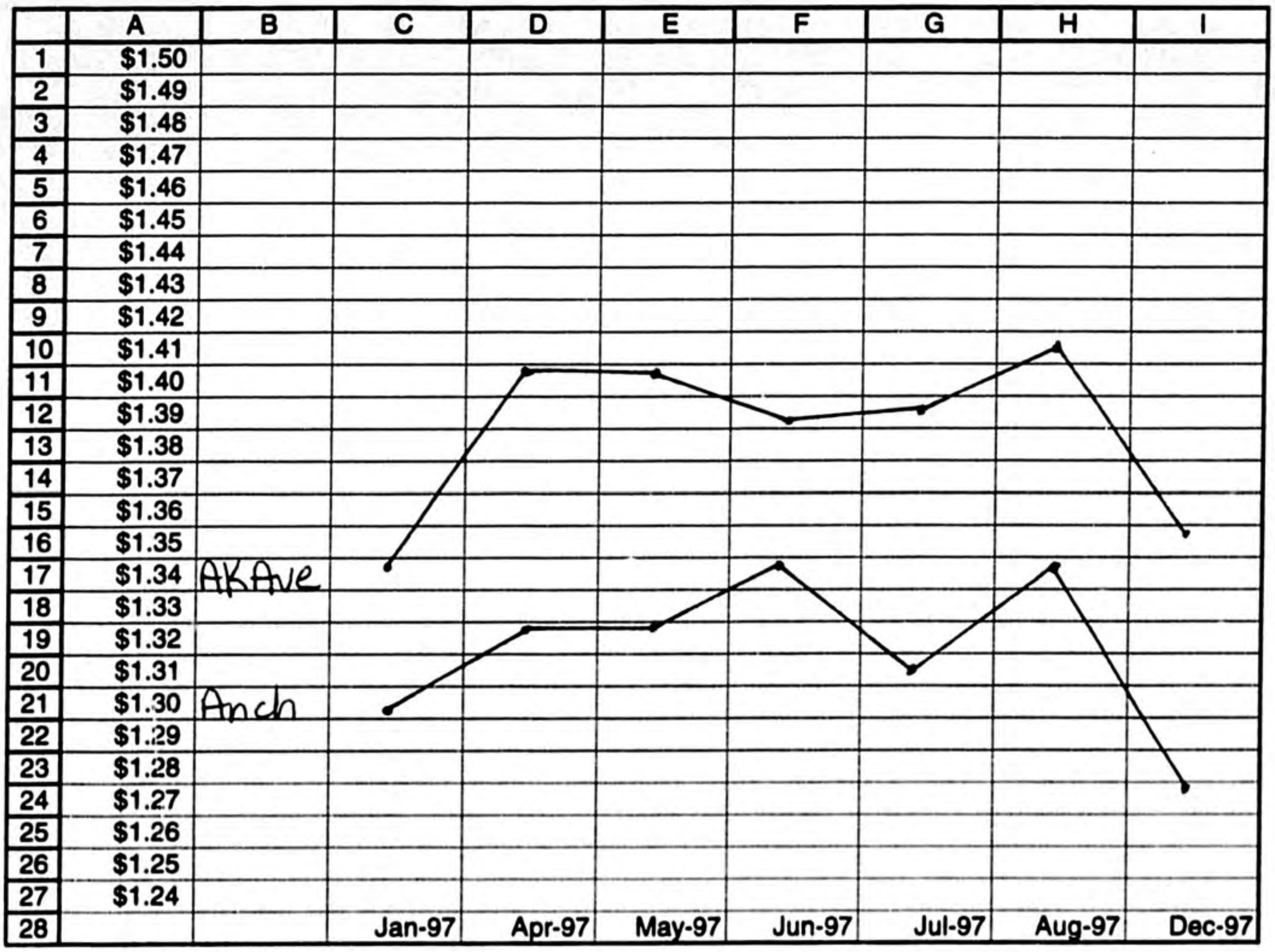


ROYALTY IN KIND PER BARREL PRICE
For the Two Years Ended December 31, 1997

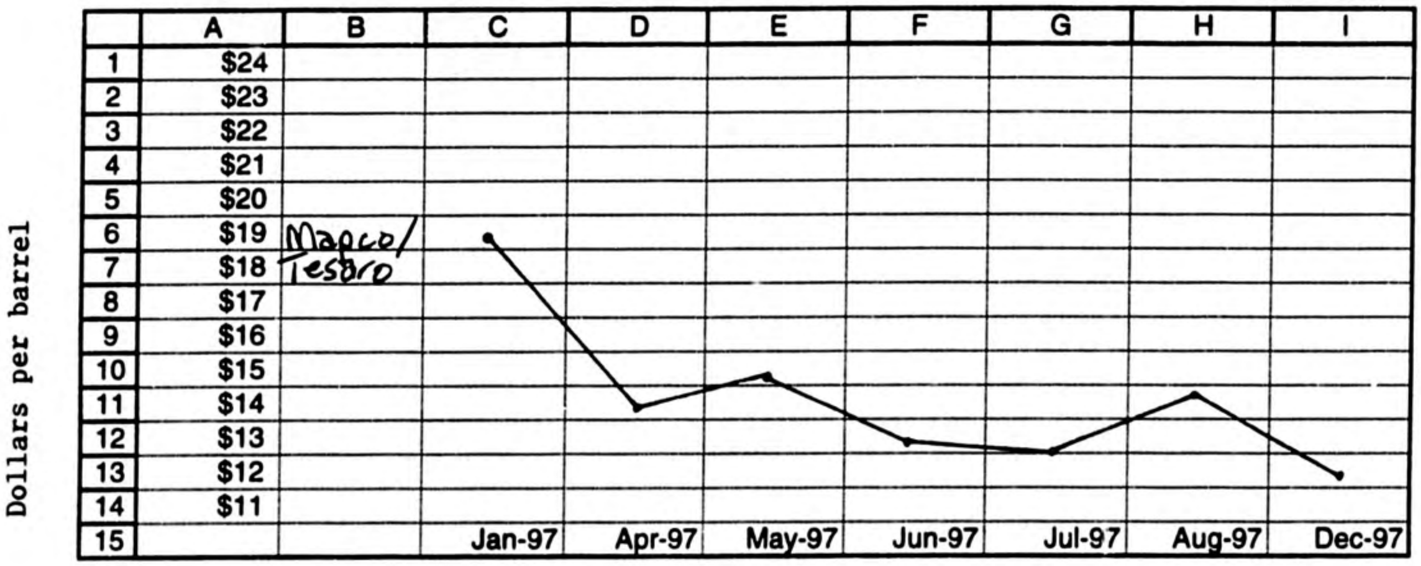
MONTH	PER BARREL PRICE MAPCO	REVISE DATE	TESORO	REVISE DATE	AVG MONTHLY ANS VALUE PER PLATTS
Jan-96	$12.73240	8/1/97	$13.01364	6/30/97	$17.2271
Feb-96	$13.09963	7/1/97	$13.41086	6/3/96	$17.8000
Mar-96	$15.66164	7/1/97	$15.85007	7/1/96	$20.3971
Apr-96	$17.23502	7/1/97	$17.16655	8/1/96	$22.0424
May-96	$14.93315	7/1/97	$14.99082	3/3/97	$19.6550
Jun-96	$14.28763	7/1/97	$14.26562	10/1/96	$18.9780
Jul-96	$15.19824	7/1/97	$15.27400	11/1/96	$19.7429
Aug-96	$15.54208	7/1/97	$15.31424	12/2/96	$19.9705
Sep-96	$17.26905	7/1/97	$17.66870	1/7/97	$21.7305
Oct-96	$18.06795	7/1/97	$18.20691	2/3/97	$22.5952
Nov-96	$17.28787	7/1/97	$17.48580	3/3/97	$21.5000
Dec-96	$18.89376	7/1/97	$18.64901	3/3/97	$23.6576
Jan-97	$19.25196	12/2/97	$19.44604	4/1/97	$23.5686
Feb-97	$16.36837	12/2/97	$16.01334	5/1/97	$21.0247
Mar-97	$15.07830	12/2/97	$14.69376	6/2/97	$20.0660
Apr-97	$14.15840	12/2/97	$14.03689	7/1/97	$18.5427
May-97	$15.02068	12/2/97	$14.59313	8/1/97	$19.4138
Jun-97	$13.30065	12/2/97	$12.94453	9/2/97	$17.2971
Jul-97	$13.04149	12/2/97	$12.70353	10/1/97	$17.4773
Aug-97	$13.67822	12/2/97	$13.72986	11/3/97	$17.9848
Sep-97	$13.96846	1/2/98	$13.71214	2/2/98	$18.0867
Oct-97	$15.29256	2/2/98	$15.13235	1/2/98	$19.5857
Nov-97	$14.32151	1/2/98	$13.57867	2/5/98	$18.3211
Dec-97	$12.40562	2/2/98	$12.02909	2/2/98	$16.3918

PREPARED BY J. STOUFFER, DIV OF OIL GAS RIKVALUE96&97 2/24/98

Figures provided by AAA Alaska 2/20/98
Anch. = Anchorage Average
AK Aver. = Alaska Average



Royalty in Kind Per Barrel Price
January 1997 - Dec. 1997
Prepared by J. Stouffer, Div of Oil Gas



Appendix B

Comparision of Highway Gasoline Tax Rates

October 1997

State	Rate (¢ per gallon)	Other Tax[1] (¢ per gallon)	Total (¢ per gallon)	Rank
Alabama	16	4.1	20.1	30
ALASKA	**8**	**0**	**8**	**50**
Arizona	18	1	19	37
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Colorado	22	0	22	23
Connecticut	36	4.3	40.3	1
Delaware	23	0	23	18
Florida	12.8	9.8	22.6	22
Georgia	7.5	4.3	11.8	48
Hawaii	16	19.6	35.6	2
Idaho	25	0	25	14
Illinois	19	6.8	25.8	10
Indiana	15	4.4	19.4	36
Iowa	20	1	21	28
Kansas	18	1	19	37
Kentucky	15	1.4	16.4	46
Louisiana	20	0	20	31
Maine	19	0	19	37
Maryland	23.5	0	23.5	17
Massachusetts	21.5	0	21.5	26
Michigan	19	6.8	25.8	10
Minnesota	20	2	22	23
Mississippi	18	2.4	20.4	29
Missouri	17	0	17	43
Montana	27	0.8	27.8	7
Nebraska	24.5	0.8	25.3	13
Nevada	23	10.3	33.3	3
New Hampshire	18	1.7	19.7	35
New Jersey	10.5	4	14.5	47
New Mexico	17	1	18	42

New York	8	22.4	30.4	4
North Carolina	22.6	0.3	22.9	21
North Dakota	20	0	20	31
Ohio	22	0	22	23
Oklahoma	16	1	17	43
Oregon	24	0	24	16
Pennslyvania	12	14.8	26.8	8
Rhode Island	28	1	29	5
South Carolina	16	0.8	16.8	45
South Dakota	21	2	23	18
Tennesee	20	1.4	21.4	27
Texas	20	0	20	31
Utah	24	0.5	24.5	15
Vermont	19	1	20	31
Virginia	17.5	0.8	18.3	41
Washington	23	0	23	18
West Virginia	20.5	4.9	25.4	12
Wisconsin	23.8	3	26.8	8
Wyoming	9	0	9	49
Federal	**18.3**	**N/A**	**18.3**	**N/A**
U.S. Average*	**17.8**	**4.8**	**22.6**	**N/A**

(1) Includes state sales tax, gross receipts tax and underground storage tank taxes.

State sales taxes are based on selected city average retail gasoline prices as of August 22, 1997.

* Weighted average

SOURCE: *American Petroleum Institute*, *A Summary of Nationwide and State-by-State Motor Fuel Taxes as of September 1997*.

Feb 20, 98

[illegible]

City	Regular	Premium	Station
Anchorage	1.259	1.479	272 7210
Anchorage	1.199	1.399	279 5226
Juneau	1.449	1.599	789-2880
Juneau	1.439	1.589	789 9476
Fairbanks	1.329	~~1.449~~ 1.519	456 4224
Fairbanks	1.289	1.489	452 8839
State Average			

Fuel News

Gas Prices Tumble To Lowest Level Since 1994, AAA Says

ORLANDO, Fla., Feb. 17, 1998 — The national average price of gasoline fell 4.5 cents in one month to reach its lowest point since spring of 1994, according to AAA.

AAA's monthly Fuel Gauge Report shows the average price of self-serve regular unleaded gasoline is $1.114 per gallon, 17.3 cents less than one year ago.

In the last five months, the price has fallen 17.4 cents to reach the lowest level since May 1994 when the price was $1.105 per gallon.

The average price of self-serve mid-grade unleaded is $1.209 per gallon, 3.2 cents less than last month and 15.7 cents less than one year ago. Self-serve premium is $1.262, down 4.5 cents from a month ago and 17.4 cents less than last year.

Self-serve regular unleaded is most expensive in the West at $1.245 per gallon, 6.9 cents less than last month and 12.1 less than a year ago. It is least expensive in the Southeast at $1.039, 3.9 cent less than a month ago and 17.6 cents less than last year.

Other regional prices for self-serve are: New England, $1.159 per gallon, down 4.7 cents in one month and down 16.8 cents from last year; Mid-Atlantic, $1.113, down 4.3 from the previous month and 19.8 cents less than a year ago; Great Lakes, $1.057, 1.7 cents less than last month and 20.6 cents less than last year; Midwest, $1.049, 3.6 cents less than last month and down 21.7 cents from a year ago; and Southwest, $1.096, down 4.8 cents in one month and 16.4 cents less than last year.

The national average prices for self-serve regular unleaded gasoline for the last six months were: January, $1.159 per gallon; December, $1.216; November, $1.234; October, $1.264; September, $1.288; and August, $1.264.

The national average prices for self-serve regular unleaded gasoline in February for the last five years were: 1997, $1.287 per gallon; 1996, $1.129 gallon; 1995, $1.118; 1994, $1.069; 1993, $1.093; and 1992, $1.049.

Motor Gasoline Watch

US Department of Energy, Energy Information Administration

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Motor Gasoline Watch

February 11, 1998

SUPPLY

- Stable demand along with higher production contributed to an increase in stocks last week. Total gasoline stocks ended the week at 220.6 million barrels. Reformulated gasoline stocks were down 0.5 million barrels last week. Finished gasoline production averaged 7.8 million barrels per day last week, an increase of 236 thousand barrels per day from production during the prior week. Finished gasoline imports were 206 thousand barrels per day compared to 326 thousand barrels per day during the prior week.

- Total motor gasoline stocks at the primary storage level were 13.0 million barrels above the level for the same week last year. Imports of total gasoline averaged 373 thousand barrels per day of which 85 thousand barrels per day were reformulated.

● Gasoline Supply Tables

PRICES

- With much of the effect of a possible strike against Iraq already factored-in, gasoline spot prices ended the week slightly lower, mainly driven by API's report of a large gasoline stock build for the week ending January 30, 1998. Prices also responded to reports of European cargos steaming toward the United States. The spot price for conventional gasoline in the New York Harbor ended at 45.03 cents per gallon on February 9, 1998, down 4.48 cents from last week, and well below the price from a year ago. Declining demand, attributed to bad weather, further depressed product prices on the West Coast.

- The national retail gasoline price was 105.3 cents per gallon on February 9, 1998, down 0.8 cent since last week and 18.1 cents per gallon since last year. Prices have lost 19.1 cents since the end of August peak and now rival levels recorded in May 1994.

● Gasoline Prices Tables

Tuesday, February 3, 1998

Juneau pump prices perplexing

Last modified at 2:27 p.m. on Tuesday, February 3, 1998

By MARK SABBATINI
THE JUNEAU EMPIRE

Cliff Ouellette says local gas prices are about what he remembers when he departed for a temporary job in Washington a few months ago. But he says prices there are a different story.

``Right before I left they were $1.05 (a gallon)," the house frame builder said. ``They went down quite a bit. They were $1.32 when I first got there."

Juneau gas prices dropped by a couple of cents a gallon recently, the first change in months, but the decrease falls well short of a 17-cent drop in the nationwide average since last September. The gap between Juneau's prices and the national average is about 35 cents, compared to 20 cents in September and 15 cents just over a year ago.

Local prices Monday for regular unleaded ranged from $1.40 to $1.47 a gallon, while premium unleaded ranged from $1.55 to $1.66 a gallon.

A gallon of regular unleaded cost $1.44 cents Monday at the Airport Union 76 station. The price was $1.47 last September, $1.44 last June and $1.40 in December of 1996.

The nationwide average for self-serve regular unleaded on Jan. 23 was $1.10 a gallon, said Trilby Lundberg, owner of Lundberg Survey in Camarillo, Calif. The average was $1.27 last September, $1.22 last June and $1.25 in December of 1996.

She said some stations around the country appear to have bottomed out, but she still expects a further drop in the national average when she conducts another survey this weekend.

``It's just the low-demand season for gasoline," Lundberg said. Also, she said, crude oil prices have plummeted worldwide in recent months.

Juneau's prices are at, or just above, the average of cities such as San Francisco and Reno, she said.

Local officials have said the trend in Juneau gas prices is generally set by Mapco Express, with competitors dropping prices up to 25 cents a gallon when the station opened in 1994. Prices have generally crept up ever since, although Mapco spokesman Jeff Cook declined to discuss the specific reasons for the increases during the past 14 months.

``It's just market factors," he said.

Employees at the Fisherman's Bend station in Auke Bay said there has been a slight decrease in wholesale prices recently, but the station would not have reduced its pump prices if Mapco had not done so. Manager Glen Lewis said the drop in his wholesale prices has not matched the retail drop nationwide, citing freight costs and lower volume purchasing as factors. He also said gas sales are not as profitable in the winter because people don't buy as much.

``No way are we getting fat off the gas," he said.

Juneau's prices have remained relatively consistent compared to Washington stations that may change them daily, Ouellette said.

Lundberg said some other cities' prices have also remained relatively constant, including Anchorage, which ranged from $1.31 in December 1996 to $1.28 during her company's most recent survey. Prices in Honolulu, which dropped from $1.66 in December 1996 to $1.60 last September, have actually risen since to $1.61.

Tuesday, December 2, 1997

Gasoline prices drop - elsewhere

Last modified at 3:09 p.m. on Tuesday, December 2, 1997

By MARK SABBATINI
THE JUNEAU EMPIRE

Gas prices have declined nationally during the past two months and local wholesalers say they are paying less, but the difference isn't showing up at the pump.

The reason, officials said, is somebody is making more money.

The average price for a gallon of self-serve regular unleaded at Juneau's nine gas stations was $1.4478 on Monday, with stations' prices largely unchanged in recent months. A national survey of 10,000 stations revealed an average price of $1.1953 about 10 days ago, down from $1.2742 on Sept. 5, said Trilby Lundberg, owner of Lundberg Survey in Camarillo, Calif.

''I would not be surprised if prices in most cities and the national average falls again because crude oil has slipped'' following an agreement by OPEC to boost production, she said today.

Local officials agree Juneau's prices are based on ''what the market will bear,'' although there is disagreement about who is profiting from the decrease in prices. One official said service station operators may be recovering money lost during an earlier price hike, while another said the money may be going to out-of-state corporate offices that control prices.

Prices at other stations in Alaska are also generally not reflecting the national decrease.

Dick Bevens, marketing manager for Petro Marine Services in Southeast Alaska, said his company's wholesale prices have dropped at least a nickel. He said some service stations may not be lowering their prices now because they remained relatively stable during a summer wholesale price increase.

"You can almost see what service station dealers are feeding their families when," he said. "Sometimes it was steak, sometimes it was hot dogs."

A June survey by the Empire found gas prices between $1.42 and $1.46 a gallon. Prices rose a few cents in August - a temporary increase at some stations - with current prices between $1.42 and $1.48 a gallon.

Bevens said some Seattle gas stations experienced fluctuations as high as 20 cents a gallon.

Some local service stations may be paying the same amount for their gas despite the price drop, said Jeff Hansen, manager of Taku Oil.

He said his company's buying price has dropped 8 cents a gallon during the past two months. But while the gas goes directly from Taku Oil's tanks to three local Union 76 stations, he said Phoenix-based TOSCO Corp. gets to buy the gas and resell it to the stations at whatever price it sets.

"We've seen over time the large companies like Unocal (whose retail operations were purchased by TOSCO) or Chevron in the past will set prices in a town according to what the market's doing," he said. "That's not unusual anywhere."

TOSCO officials did not return phone calls seeking comment this morning.

Eric Hansen, manager of De Hart's Auke Bay Store, said it actually costs him 6 cents a gallon more to buy gas now from his supplier, Delta Western, than it did two months ago. But he said his price of $1.43 a gallon hasn't changed because "I pretty much stay competitive with our competitors down the road."

Mapco Express is generally cited by officials as setting the trend for local prices. Juneau prices dropped by up to 25 cents a gallon when they first opened a store in 1994, although prices have crept up since.

There appear to have been few price drops in other Alaska cities in recent months.

Cascade Convenience Center in Sitka is charging $1.62, below the price in a June survey but 6 cents higher than two months ago, said Paul Kerber, a Petro Marine employee. A Ketchikan's station's price has increased 6 cents a gallon to $1.62 since June and an Anchorage station remained even at $1.30.

The exception is Fairbanks where some prices have fallen by 10 cents or more a gallon, to below $1.30 a gallon, because of a recent Mapco opening.

Business Description : TESORO PETROLEUM CORP /NEW/

Location:	**Ticker:** TSO
8700 TESORO DR	**Exchange:** NYSE
SAN ANTONIO	**Telephone:** 210-828-8484
TX	**SIC:** 2911 PETROLEUM REFINING
78217	**Cusip:** 88160910

Operations

Tesoro Petroleum Corporation, together with its subsidiaries ("Tesoro" or the "Company"), is a natural resource company engaged primarily in petroleum refining and marketing, natural gas exploration and production, marketing and distributing of petroleum products and providing marine logistics services. The Company was incorporated in Delaware in 1968 (a successor by merger to a California corporation incorporated in 1939). For financial information relating to industry segments, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and Note B of Notes to Consolidated Financial Statements in Item 8.

The Company conducts petroleum refining operations in Alaska and sells refined products to a wide variety of customers in Alaska, along the U.S. West Coast, in the Pacific Northwest and in certain Far Eastern markets, including Russia. During 1996, products from the Company's refinery accounted for approximately 79% of these sale volumes, including products received on exchange in the U.S. West Coast market, with the remaining 21% being purchased from other refiners and suppliers. The Company's purchases from other refiners and suppliers declined in 1996 as the Company withdrew from certain California markets which is further discussed below.

Annual Figures : TESORO PETROLEUM CORP /NEW/

Balance Sheet Summary	(Year) FY 1996 US$1000s	(Year) FY 1995 US$1000s
Cash	22,796	13,941
Securities	0	0
Receivables	129,528	79,376
Allowances	1,515	1,842
Inventory	74,488	80,453
Current Assets	237,343	182,464
Property and Equipment, Net	573,353	478,880
Depreciation	256,842	217,191
Total Assets	582,587	519,153
Current Liabilities	137,868	104,935
Bonds	79,260	155,007
Preferred Mandatory	0	0
Preferred Stock	0	0
Common Stock	4,402	4,130
Other Stockholders' Equity	299,663	212,384
Total Liabilities and Equity	582,587	519,153

Income Statement Summary

Total Revenues	1,039,778		1,002,883	
Cost of Sales	854,311		855,187	
Other Expenses	41,459		42,620	
Loss Provision	0		0	
Interest Expense	15,382		20,902	
Income Pre Tax	115,147		61,868	
Income Tax	38,347		4,379	
Income Continuing	76,800		57,489	
Discontinued	0		0	
Extraordinary	-2,290		-2,857	
Changes	0		0	
Net Income	74,510	7.4%	54,632	5.4%
EPS Primary	2.81$		2.18$	
EPS Diluted	2.81$		2.18$	

Quarterly Figures : TESORO PETROLEUM CORP /NEW/

Balance Sheet Summary	9 Mos Ending 9/30/97 US$1000s	6 Mos Ending 6/30/97 US$1000s	3 Mos Ending 3/31/97 US$1000s
Cash	7,379	34,856	31,363
Securities	0	0	0
Receivables	85,319	71,626	85,979
Allowances	1,420	1,466	1,499
Inventory	74,902	73,677	77,577
Current Assets	175,632	188,111	201,749
Property and Equipment, Net	667,918	617,941	589,182
Depreciation	291,113	279,832	268,471
Total Assets	587,814	557,218	551,971
Current Liabilities	99,769	91,540	97,033
Bonds	90,104	77,987	79,063
Preferred Mandatory	0	0	0
Preferred Stock	0	0	0
Common Stock	4,416	4,409	4,406
Other Stockholders' Equity	323,187	315,240	306,008
Total Liabilities and Equity	587,814	557,218	551,971

Income Statement Summary

Total Revenues	699,630	448,158	234,852
Cost of Sales	611,168	390,409	208,215
Other Expenses	34,643	23,140	11,747
Loss Provision	0	0	0
Interest Expense	4,634	3,153	1,570
Income Pre Tax	38,040	24,679	9,575
Income Tax	14,292	8,910	3,444
Income Continuing	23,748	15,769	6,131
Discontinued	0	0	0
Extraordinary	0	0	0
Changes	0	0	0
Net Income	23,748	15,769	6,131
EPS Primary	0.88$	0.59$	0.23$
EPS Diluted	0.88$	0.59$	0.23$

Mgt Discussion : TESORO PETROLEUM CORP /NEW/

Mgt Disc SEP 1997 Mgt Disc JUN 1997 Mgt Disc MAR 1997

[Dated SEP 1997]

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

INCENTIVE COMPENSATION STRATEGY

In June 1996, the Company's Board of Directors unanimously approved a special incentive compensation strategy in order to encourage a longer-term focus for all employees to perform at an outstanding level. The strategy provides eligible employees with incentives to achieve a significant increase in the market price of the Company's Common Stock. Under the strategy, awards would be earned only if the market price of the Company's Common

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Stock reaches an average price per share of $20 or higher over any 20 consecutive trading days after June 30, 1997 and before December 31, 1998 (the "Performance Target"). In connection with this strategy, non-executive employees will be able to earn cash bonuses equal to 25% of their individual payroll amounts for the previous twelve complete months and certain executives have been granted, from the Company's Amended and Restated Executive Long-Term Incentive Plan ("Plan"), a total of 340,000 stock options at an exercise price of $11.375 per share, the fair market value (as defined in the Plan) of a share of the Company's Common Stock on the date of grant, and 350,000 shares of restricted Common Stock, all of which vest only upon achieving the Performance Target.

NOTE 6 - ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." SFAS No. 128 becomes effective for the Company in the fourth quarter of 1997. At that time, the Company will be required to present "basic" and "diluted" earnings per share and to restate earnings per share data presented in prior periods. Early adoption is not permitted. The Company believes that the adoption of SFAS No. 128 will not materially impact its earnings per share disclosures.

In June 1997, the FASB issued SFAS No.130, "Reporting Comprehensive Income," and SFAS No.131, "Disclosures about Segments of an Enterprise and Related Information." Both Statements become effective for periods beginning after December 15, 1997 with early adoption permitted. The Company is evaluating the effects these Statements will have on its financial reporting and disclosures. The Statements will have no effect on the Company's results of operations, financial position, capital resources or liquidity.

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ITEM 2. TESORO PETROLEUM CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1996

SUMMARY

Net earnings of $8.0 million, or $.30 per share, for the three months ended September 30, 1997 ("1997 Quarter") compare with net earnings of $13.9 million, or $.52 per share, for the three months ended September 30, 1996 ("1996 Quarter"). For the year-to-date period, net earnings of $23.8 million, or $.88 per share, for the nine months ended September 30, 1997 ("1997 Period") compare with net earnings of $31.9 million, or $1.21 per share, for the nine months ended September 30, 1996 ("1996 Period"). Results for the 1996 Quarter and Period included revenues from sales of natural gas at above-market prices under a contract with Tennessee Gas Pipeline Company ("Tennessee Gas") which was terminated effective October 1, 1996. Results of operations in 1997 and future years will no longer include above-market revenues from this contract. Significant items, including the impact of the Tennessee Gas contract, which affect the comparability between results for 1997 and 1996 are highlighted in the table below (in millions except per share amounts):

	Three Months Ended September 30, 1997	Three Months Ended September 30, 1996	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
Net Earnings As Reported	$ 8.0	13.9	23.8	31.9
Extraordinary Loss on Debt Extinguishment, Net of Income Tax Benefit	-	2.3	-	2.3
Earnings Before Extraordinary Item	8.0	16.2	23.8	34.2
Significant Items Affecting Comparability, Pretax:				
Operating profit from excess of Tennessee Gas contract prices over spot market prices	-	8.5	-	24.6
Interest and reimbursement of fees and costs from resolution of litigation	-	7.9	-	7.9
Income from collection of Bolivian receivable	-	-	2.2	-
Income from retroactive severance tax refunds	-	-	1.8	5.0
Costs of shareholder consent solicitation resolved in April 1996	-	-	-	(2.3)
Employee terminations, restructuring costs and other	-	(.7)	-	(4.5)
Total Significant Items, Pretax	-	15.7	4.0	30.7
Income Tax Effect	-	4.4	1.2	8.3
Total Significant Items, Aftertax	-	11.3	2.8	22.4
Net Earnings Excluding Significant Items and Extraordinary Loss	$ 8.0	4.9	21.0	11.8

Earnings Per Share:				
As Reported	$ .30	.52	.88	1.21
Extraordinary Loss	-	(.09)	-	(.09)
Significant Items:				
Impact of Tennessee Gas contract prices over spot market prices	-	.23	-	.68
Other significant items	-	.20	.10	.17
Excluding Significant Items and Extraordinary Loss	$ .30	.18	.78	.45

As shown above, net earnings of $8.0 million ($.30 per share) in the 1997 Quarter would compare to $4.9 million ($.18 per share) when excluding the significant items in the 1996 Quarter. The resulting increase in net earnings in the 1997 Quarter was mainly attributable to improved profitability from each of the Company's business segments together with lower corporate interest expense. For the year-to-date periods, excluding significant items, net earnings would have been $21.0 million ($.78 per share) for the 1997 Period compared to $11.8 million ($.45 per share) for the 1996 Period. The increase in the 1997 Period was primarily due to higher spot market natural gas prices, better refined product margins and lower corporate interest expense. A discussion and analysis of the factors contributing to the Company's results of operations are presented below. The Company conducts its operations in the following business segments: Refining and Marketing, Exploration and Production, and Marine Services.

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REFINING AND MARKETING	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions except per unit amounts)	1997	1996	1997	1996
Gross Operating Revenues:				
Refined products	$ 177.5	169.9	486.9	465.7
Other, primarily crude oil resales and merchandise	21.3	33.8	48.1	98.1
Gross Operating Revenues	$ 198.8	203.7	535.0	563.8
Total Operating Profit:				
Gross margin	$ 34.2	31.7	94.8	85.5
Operating expenses	23.3	22.3	68.7	67.1
Depreciation and amortization	3.4	3.0	9.7	9.0
Loss on sale of assets and other	.1	.7	.1	.7
Operating Profit	$ 7.4	5.7	16.3	8.7
Capital Expenditures	$ 11.8	3.1	30.6	6.9
Refinery Throughput:				
Barrels per day	43,192	41,165	48,225	45,760
% Alaska North Slope crude oil	68%	69%	77%	71%

Refined Products Manufactured (average daily barrels):					
Gasoline		11,351	10,953	12,499	12,717
Middle distillates		17,999	17,690	20,400	19,143
Heavy oils and residual product		12,587	11,638	14,140	12,829
Other		1,910	2,214	2,500	2,709
Total Refined Products Manufactured		43,847	42,495	49,539	47,398
Refinery Operations - Product Spread ($/barrel):					
Average yield value of products manufactured	$	23.81	25.07	23.83	23.87
Cost of raw materials		17.92	19.33	18.69	19.03
Refinery Product Spread	$	5.89	5.74	5.14	4.84
Non-Refinery Margin, included in operating profit above ($ millions)	$	10.8	10.0	27.1	24.9
Total Segment Product Sales (average daily barrels):					
Gasoline		18,592	18,073	18,156	18,751
Middle distillates		37,844	32,123	30,138	30,159
Heavy oils and residual product		13,748	16,489	17,700	14,594
Total Product Sales		70,184	66,685	65,994	63,504
Total Segment Product Sales Prices ($/barrel):					
Gasoline	$	35.23	34.52	33.90	32.35
Middle distillates	$	27.00	29.33	28.46	28.08
Heavy oils and residual product	$	18.40	17.03	17.53	16.86
Total Segment Gross Margins on Product Sales ($/barrel):					
Average sales price	$	27.49	27.70	27.03	26.76
Average costs of sales		22.80	23.16	22.52	22.43
Gross Margin	$	4.69	4.54	4.51	4.33

Amounts reported in prior periods have been reclassified to conform with current presentation.

Non-refinery margin includes margins on products purchased and resold, margins on products sold in markets outside of Alaska, intrasegment pipeline revenues, retail margins, and adjustments due to selling a volume and mix of products that is different than actual volumes manufactured.

Sources of total products sales include products manufactured at the refinery, products drawn from inventory balances and products purchased from third parties. The Company's purchases of refined products for resale averaged approximately 24,700 and 13,600 barrels per day for the three months ended September 30, 1997 and 1996, respectively, and approximately 15,500 and 12,100 barrels per day for the nine months ended September 30, 1997 and 1996, respectively.

Gross margins on total product sales include margins on sales of purchased products, together with the effect of changes in inventories.

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REFINING AND MARKETING

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $7.4 million from the Company's Refining and Marketing segment during the 1997 Quarter represented a 30% improvement from the 1996 Quarter. The continued success of the Company's program to sell a larger portion of its refinery production within the core Alaska market, together with generally favorable industry conditions, contributed to this improvement. The Company's sales of gasoline and asphalt in Alaska increased in the 1997 Quarter as compared to the 1996 Quarter. Jet fuel sales also increased due to growing trans-Pacific air cargo traffic through the international airport in Anchorage.

The Company's refinery product spread averaged $5.89 per barrel in the 1997 Quarter, a $.15 per barrel improvement from the 1996 Quarter. The Company's refined product yield values decreased by 5% to $23.81 per barrel in the 1997 Quarter from $25.07 per barrel in the 1996 Quarter, while the Company's feedstock costs decreased by 7% to $17.92 per barrel in the 1997 Quarter from $19.33 per barrel in the 1996 Quarter. The 1997 Quarter and 1996 Quarter both included scheduled turnarounds, during which the refinery was not fully operational. Margins from non-refinery activities increased to $10.8 million during the 1997 Quarter from $10.0 million in the 1996 Quarter due primarily to higher retail sales and improved margins on refined products sold outside Alaska.

The increase of $7.6 million in revenues from refined products sales during the 1997 Quarter was primarily due to higher sales volumes, which rose 5% to 70,184 barrels per day in the 1997 Quarter from 66,685 barrels per day in the 1996 Quarter. Other revenues declined by $12.5 million due primarily to lower sales volumes of previously purchased crude oil together with lower prices. During the 1997 Quarter, the Company had less crude oil available for resale as refinery throughput averaged 2,027 barrels per day more than in the 1996 Quarter. Costs of sales decreased in the 1997 Quarter due to lower prices for crude oil and refined products. The $1.0 million increase in operating expenses included higher employee costs associated in part with expanded marketing efforts and higher professional fees. The 1996 Quarter included a $.7 million write-down of a West Coast terminal that was subsequently sold.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $16.3 million in the 1997 Period compares to operating profit of $8.7 million in the 1996 Period. The Company's refinery spread of $5.14 per barrel in the 1997 Period improved 6% from the prior year period. The Company's production of jet fuel, a product in short supply in Alaska, was higher in the 1997 Period principally due to the use of an improved catalyst in the hydrocracker unit, a change made during the refinery turnaround in the 1996 Period. Margins from non-refinery activities increased to $27.1 million during the 1997 Period as compared to $24.9 million in the 1996 Period due primarily to higher retail sales and improved margins on refined products sold outside of Alaska.

Revenues from sales of refined products in the Company's Refining and Marketing segment increased by 5% during the 1997 Period due to higher sales volumes and prices. Other revenues declined by $50.0 million during the 1997 Period due primarily to lower sales volumes of crude oil together with lower prices. During the 1997 Period, the Company had less crude oil available for resale as refinery throughput averaged 2,465 barrels per day more than in the 1996 Period and fewer spot purchases of crude oil were made. Costs of sales decreased in the 1997 Period due to lower volumes of crude oil. The $1.6 million increase in operating expenses included higher employee costs and professional fees.

FUTURE IMPACT. The improvement in Refining and Marketing results have been due in part to the Company's marketing program to sell a larger portion of its refinery production within the core Alaska market. In addition, favorable summer and fall weather conditions in Alaska increased the demand for the Company's in-state sales during the 1997 Period. In early October 1997, the Company completed an expansion of its refinery hydrocracker unit, which increases the unit's capacity by approximately 25% to 12,500 barrels per day and enables the Company to produce more jet fuel. The expansion, together with the addition of a new, high-yield jet fuel catalyst, has an estimated cost of $19 million with a projected payback period of two years and is expected to favorably impact this segment's results beginning in the fourth quarter of 1997. The Company is also expanding its Alaskan retail operations with the construction of new outlets and remodeling of existing outlets. With respect to crude oil supply, beginning in October 1997, a subsidiary of the Company has contracts to purchase all of the approximately 34,000 barrels per day of Cook Inlet production for various periods of more than one year. In the 1997 Period, the Company processed approximately 9,300 barrels per day of Cook Inlet crude, or 19% of the refinery's throughput. The increase in Cook Inlet crude oil as a refinery feedstock will enable the Company to

— Crude to Subsidiary

produce higher-valued products. Although the aforementioned initiatives are expected to improve the fundamental earnings potential of this segment, future profitability of this segment will continue to be influenced by market conditions, particularly as these conditions influence costs of crude oil relative to prices received for sales of refined products, and other additional factors that are beyond the control of the Company.

EXPLORATION AND PRODUCTION	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions except per unit amounts)	1997	1996	1997	1996
U.S.:				
Gross Operating Revenues . . . . $	15.9	23.0	53.3	73.4
Other Income (primarily retroactive severance tax refunds)	-	-	1.9	5.0
Production Costs	1.5	1.3	5.0	3.8
Administrative Support and Other Operating Expenses . . .	.6	.2	1.7	2.2
Depreciation, Depletion and Amortization.	7.0	6.2	22.2	18.9
Operating Profit - U.S..	6.8	15.3	26.3	53.5
BOLIVIA:				
Gross Operating Revenues.	3.8	3.4	8.4	10.5
Other Income (related to collection of a receivable). . .	-	-	2.2	-
Production Costs.	.3	.2	.7	.6

Administrative Support and Other Operating Expenses	.5	.6	1.3	2.1
Depreciation, Depletion and Amortization	.5	.4	1.0	1.0
Operating Profit - Bolivia	2.5	2.2	7.6	6.8
TOTAL OPERATING PROFIT - EXPLORATION AND PRODUCTION	$ 9.3	17.5	33.9	60.3
U.S.:				
Average Daily Net Production:				
Natural gas (Mcf)	79,683	80,612	86,317	88,723
Oil (barrels)	93	39	119	15
Average Prices:				
Natural gas ($/Mcf) -				
Spot market	$ 2.01	1.71	2.08	1.77
Average	$ 2.01	2.92	2.08	2.85
Oil ($/barrel)	$ 18.23	20.93	19.44	20.59
Average Operating Expenses ($/Mcfe) -				
Lease operating expenses	$ .21	.14	.18	.12
Severance taxes	-	.04	.03	.04
Total Production Costs	.21	.18	.21	.16
Administrative support	.09	.01	.07	.08
Total Operating Expenses	$ .30	.19	.28	.24
Depletion ($/Mcfe)	$ .93	.82	.92	.77
Capital Expenditures	$ 16.3	11.7	32.5	27.1
BOLIVIA:				
Average Daily Net Production:				
Natural gas (Mcf)	26,856	20,945	18,452	21,355
Condensate (barrels)	760	605	529	611
Average Prices:				
Natural gas ($/Mcf)	$ 1.13	1.31	1.20	1.33
Condensate ($/barrel)	$ 15.00	16.92	16.23	16.50
Average Operating Expenses ($/Mcfe) -				
Production costs	$ .10	.11	.11	.10
Value-added taxes	-	.08	-	.07
Administrative support	.20	.24	.25	.24
Total Operating Expenses	$ .30	.43	.36	.41
Depletion ($/Mcfe)	$ .19	.17	.18	.15
Capital Expenditures	$ 20.0	.8	26.0	5.7

Represents the Company's U.S. oil and gas operations combined with gas transportation activities.

Results for 1996 included revenues from above-market pricing provisions of a contract with Tennessee Gas which was terminated effective October 1, 1996. Operating profit for the three and nine months ended September 30, 1996 included $8.5 million and $24.6 million, respectively, for the excess of these contract prices over spot market prices. Net natural

gas production sold under the contract averaged approximately 14 Mmcf per day for both the three months and nine months ended September 30, 1996.

Includes effects of the Company's natural gas commodity price agreements which amounted to a loss of $.19 per Mcf for the three months ended September 30, 1996, and losses of $.06 per Mcf and $.15

per Mcf for the nine months ended September 30, 1997 and 1996, respectively.
Mcf is defined as one thousand cubic feet; Mcfe is defined as net equivalent one thousand cubic feet.

EXPLORATION AND PRODUCTION - U. S.

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $6.8 million from the Company's U.S. operations in the 1997 Quarter compares to operating profit of $15.3 million in the 1996 Quarter. The 1996 Quarter included revenues from the sale of natural gas at above-market prices under a contract with Tennessee Gas. The excess of these contract prices over spot market prices contributed approximately $8.5 million to operating profit in the 1996 Quarter. When excluding the incremental value of the Tennessee Gas contract from the 1996 Quarter, operating profit from the Company's U.S. operations for the 1997 Quarter would be relatively unchanged as total production volumes remained flat during both quarters and increases in spot market natural gas prices were offset by increased depreciation and depletion and operating expenses.

Prices realized by the Company on spot market natural gas production increased to $2.01 per Mcf in the 1997 Quarter from $1.71 per Mcf in the 1996 Quarter. On a weighted-average basis, the Company's natural gas sales price was $2.92 per Mcf in the 1996 Quarter due to sales under the Tennessee Gas contract. The Company's production averaged 80.2 million cubic feet equivalents ("Mmcfe") per day in the 1997 Quarter compared to 80.8 Mmcfe per day in the 1996 Quarter. This decrease in the Company's production consisted of a 14.0 million cubic feet ("Mmcf") per day decline from the Bob West Field partially offset by a 13.4 Mmcfe per day production increase from other U.S. fields. The Company's production outside of the Bob West Field rose to 23% of total production during the 1997 Quarter, as compared to 6% in the 1996 Quarter. In September 1997, production began from the Company's interest in the Vinegarone East Field in Val Verde Basin of Southwest Texas at an initial flow rate of approximately 12 Mmcf per day gross (8.6 Mmcf per day net). Drilling is underway on two development wells in this field. In addition, the Cuellar 1 well, which was discovered during the 1997 Quarter in the Wilcox Trend of South Texas, began production in October 1997 at 8.0 Mmcf per day gross (6.0 Mmcf per day net). The Company's net U.S. production reached 90 Mmcf per day in late October 1997.

Gross operating revenues from the Company's U.S. operations, after excluding amounts related to Tennessee Gas, increased due to the higher spot market prices. Production costs increased by $.2 million in the 1997 Quarter due primarily to higher per-unit lease operating expenses from the Company's newer fields. Depreciation and depletion increased by $.8 million, or 13%, due to a higher depletion rate.

From time to time, the Company enters into commodity price agreements to reduce the risk caused by fluctuation in the prices of natural gas in the spot market. During the 1996 Quarter, the Company used such agreements to set the price of 38% of the natural gas production that it sold in the spot market and recognized a loss of $1.2 million ($.19 per Mcf) related to these price agreements. The Company did not have any such transactions during the 1997 Quarter.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $26.3 million from the Company's U.S. operations in the 1997 Period compares to $53.5 million in the 1996 Period. Comparability between these periods was impacted by certain significant items. The 1996 Period included operating profit of $24.6 million from the excess of Tennessee Gas contract prices over spot market prices. Results of operations in 1997 and future years will no longer include above-market revenues from this contract which was terminated effective October 1, 1996. Operating profit also included retroactive severance tax refunds of $1.8 million and $5.0 million in the 1997 and 1996 Periods, respectively. Excluding the incremental value of the Tennessee Gas contract and retroactive severance tax refunds, operating profit from the Company's U.S. operations would have been $24.5 million in the 1997 Period compared to $23.9 million in the 1996 Period. The resulting increase of $.6 million was primarily attributable to higher spot market prices for sales of natural gas partially offset by higher depreciation and depletion.

Prices realized by the Company on its spot natural gas production increased 18% to $2.08 per Mcf in the 1997 Period from $1.77 per Mcf in the 1996 Period. The increase in average spot market prices was attributable in part to unusually high prices received during January and February when there was unusually cold weather combined with below-normal natural gas storage levels. On a weighted-average basis, the Company's natural

gas sales price was $2.85 per Mcf in the 1996 Period due to sales under the Tennessee Gas contract. The Company's production averaged 87.0 Mmcfe per day in the 1997 Period, a decrease of 1.8 Mmcfe per day from the 1996 Period. This decrease in the Company's production consisted of a 13.9 Mmcf per day decline from the Bob West Field partially offset by a 12.1 Mmcfe per day increase from other U.S. fields. Production from the Bob West Field, which accounted for 95% of the Company's total U.S. production in the 1996 Period, was reduced to 81% in the 1997 Period.

Gross operating revenues from the Company's U.S. operations, after excluding amounts related to Tennessee Gas, increased due to the higher spot market prices. Production costs increased by $1.2 million during the 1997 Period due to higher per-unit lease operating expenses from the Company's newer fields. Administrative support and other operating expenses decreased by $.5 million. Depreciation and depletion increased by $3.3 million, or 17%, due to a higher depletion rate.

From time to time, the Company enters into commodity price agreements to reduce the risk caused by fluctuations in the prices of natural gas in the spot market. In addition, from time to time the Company has entered into price agreements with collars, under which no payments will be made by either party unless the price falls below a designated floor price or above a designated ceiling price, at which time the Company receives or pays the difference, respectively. During the 1997 and 1996 Periods, the Company used such agreements to set the price of 11% and 37%, respectively, of the natural gas production that it sold in the spot market. During the 1997 and 1996 Periods, the

Company realized losses of $1.6 million ($.06 per Mcf) and $2.9 million ($.15 per Mcf), respectively, from these price agreements. At September 30, 1997, the Company has no remaining price agreements outstanding for the year.

EXPLORATION AND PRODUCTION - BOLIVIA

HYDROCARBONS LAW. In 1996, a new Hydrocarbons Law was passed by the Bolivian government that significantly impacts the Company's operations in Bolivia. The new law, among other matters, granted the Company the option to convert its Contracts of Operation to new Shared Risk Contracts. On November 6, 1997, the Company completed the conversion of its Contracts of Operation for Block 18 and Block 20 into four Shared Risk Contracts. The new contracts have an effective date of July 29, 1996 and extend the Company's term of operation, provide more favorable acreage relinquishment terms and provide for a more favorable fiscal regime of royalties and taxes. The new contract for Block 18 is extended to the year 2017. The new contracts for Block 20 are extended to the year 2029 for Block 20-West and Block 20-East, which are in the exploration phase, and to the year 2018 for Block 20-Los Suris that is in the development phase.

FARMOUT. A farmout agreement executed June 19, 1997, between the Company and Total Exploration Production Bolivie, S.A. ("Total"), an affiliate of Total S.A., became effective on a portion of Block 20-West on November 6, 1997. Pursuant to the farmout agreement, Total established a financial guarantee to the Bolivian government to guarantee the performance of exploration work on Block 20-West. Under the farmout agreement, Total has the right to drill, at its sole cost, two exploratory wells to earn a 75 percent interest in the farmout area which consists of 315,000 acres of Block 20-West. The assignment of interest by the Company to Total, which is subject to reversion if Total does not earn the interest, has been approved by the Bolivian government and is expected to become effective in the fourth quarter of 1997. It is anticipated that Total will spud the first well by mid-1998.

YPFB AND YPF CONTRACT. The Company's Bolivian natural gas production has been sold to Yacimientos Petroliferos Fiscales Bolivianos ("YPFB"), which in turn sells the natural gas to Yacimientos Petroliferos Fiscales, SA ("YPF"), a publicly-held company based in Argentina. Currently, the Company's sales of natural gas production is based on the volume and pricing terms in the contract between YPFB and YPF. The contract to sell gas to YPF expired March 31, 1997 and a contract extension was signed effective April 1, 1997 extending the contract term two years to March 31, 1999 with an option to extend the contract a maximum of one additional year if the pipeline being constructed from Bolivia to Brazil is not complete. In the contract extension, YPF negotiated an 11% reduction in the minimum contract volume it is required to import from Bolivia, which in turn resulted in a corresponding 11% reduction of Tesoro's minimum contract volume.

ACCESS TO NEW MARKETS. A lack of market access has constrained natural gas production in Bolivia. Preliminary work on a new 1,900-mile pipeline that will link Bolivia's gas reserves with markets in Brazil has begun and the pipeline is expected to be operational in early 1999.

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $2.5 million from the Company's Bolivian operations in the 1997 Quarter compares to

operating profit of $2.2 million in the 1996 Quarter. With the Company's purchase of Zapata's interests in Block 18 and Block 20 in July 1997, the Company now holds a 100% interest in both blocks, subject to the farmout agreement with Total (see Note 2 of Notes to Condensed Consolidated Financial Statements). Beginning in the 1997 Quarter, the Company's net share of production from Block 18 increased by approximately 33% as a result of this purchase. Block 20 is currently shut-in waiting on the construction of the pipeline to Brazil, which is expected to be operational in early 1999. Natural gas prices for Bolivian production fell to $1.13 per Mcf in the 1997 Quarter, a 14% drop from the 1996 Quarter.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $7.6 million from the Company's Bolivian operations in the 1997 Period compares to operating profit of $6.8 million in the 1996 Period. The 1997 Period included income of $2.2 million related to the collection of a receivable for prior years production. Excluding this income, operating profit would have decreased by $1.4 million as production of natural gas and condensate fell by 14%. As discussed above, the Company's production rose during the 1997 Quarter due to the purchase of the Zapata interests in July 1997 which will also benefit future periods. However, earlier in the year, the Company's Bolivian natural gas production was lower due to a reduction in minimum takes under the new contract between YPFB and YPF and also due to constraints arising from repairs to a non-Company-owned pipeline that transports gas from Bolivia to Argentina. A replacement pipeline is now operational, which has restored full capacity. During the 1996 Period, production was higher due to requests from YPFB for additional production from the Company to meet export specifications. Natural gas prices declined to $1.20 per Mcf in the 1997 Period compared to $1.33 per Mcf in the 1996 Period. Administrative support and other operating expenses decreased by $.8 million in the 1997 Period due primarily to the reduced production levels.

MARINE SERVICES	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	1997	1996	1997	1996
Gross Operating Revenues:				
Fuels . . . . $	25.2	26.0	77.6	70.4
Lubricants and other.	4.2	4.1	12.3	10.9
Services.	3.1	2.6	8.4	6.2
Gross Operating Revenues	32.5	32.7	98.3	87.5
Costs of Sales	22.9	24.5	72.6	66.7

Gross Profit	9.6	8.2	25.7	20.8
Operating Expenses and Other	6.5	5.8	20.4	15.4
Depreciation and Amortization. . . .	.4	.4	1.2	.9
Operating Profit . . . . $	2.7	2.0	4.1	4.5
Sales Volumes (millions of gallons):				
Fuels, primarily diesel	39.1	37.8	116.2	107.4
Lubricants.	.7	.7	2.0	1.9
Capital Expenditures . . . . $	2.0	1.2	5.3	6.2

For the 1997 Quarter, gross operating revenues declined by $.2 million due primarily to lower fuel sales prices partly offset by increased fuel volumes. The $1.6 million decrease in cost of sales correlates to these lower fuel market prices. The 19% increase in service revenues was associated with the increased rig activity in the Gulf of Mexico and the Company's focus to serve these customers. The improvement of $1.4 million in gross profit was partly offset by higher operating expenses associated with the increased sales volumes and service revenues.

For the 1997 Period, gross operating revenues increased by $10.8 million, with an 11% increase in fuels and lubricants revenues and a 35% increase in service revenues. These increases were mainly due to added locations and associated volumes stemming from an acquisition consummated in February 1996 together with internal growth initiatives. Costs of sales during the 1997 Period increased due to the higher volumes and also included a $.7 million charge associated with inventory valuations as market prices declined from year-end levels. The improvement of $4.9 million in gross profit during the 1997 Period was offset by higher operating and other expenses associated with the increased activity and upgrades to facilities and services.

The Marine Services segment's business is largely dependent upon the volume of oil and gas drilling, workover, construction and seismic activity in the Gulf of Mexico.

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GENERAL AND ADMINISTRATIVE

General and administrative expense increased by $.3 million and $.6 million during the 1997 Quarter and Period, respectively. These increases were primarily due to higher employee costs partially offset by reduced professional fees and insurance costs.

INTEREST EXPENSE AND INTEREST INCOME

Interest expense decreased by $2.6 million and $7.5 million during the 1997 Quarter and Period, respectively. These decreases were primarily due to the Company's redemption of $74.1 million of public debt in November 1996 which has resulted in interest expense savings of approximately 60% in the 1997 Quarter and Period.

Interest income decreased by $6.9 million and $6.2 million during the 1997 Quarter and Period, respectively. The 1996 Quarter and Period included interest of approximately $7 million received from Tennessee Gas in conjunction with the collection of a receivable which resulted from underpayment for natural gas sold in prior periods. The 1997 Period included interest income of approximately $.4 million related to the collection of a Bolivia receivable.

OTHER EXPENSE, NET

For the 1997 Period, other expense decreased by $5.3 million primarily due to charges incurred in the prior year period for shareholder consent solicitation costs of $2.3 million, which was resolved in April 1996, together with a write-off of deferred financing costs and employee termination costs with no material comparable costs recorded in the current period.

INCOME TAX PROVISION

Income taxes decreased by $2.2 million and $2.8 million during the 1997 Quarter and Period, respectively. These decreases were primarily due to lower earnings.

IMPACT OF CHANGING PRICES

The Company's operating results and cash flows are sensitive to the volatile changes in energy prices. Major shifts in the cost of crude oil used for refinery feedstocks and the price of refined products can result in a change in margin from the Refining and Marketing operations, as prices received for refined products may or may not keep pace with changes in crude oil costs. These energy prices, together with volume levels, also determine the carrying value of crude oil and refined product inventory. The Company uses the last-in, first-out ("LIFO") method of accounting for inventories of crude oil and U.S. wholesale refined products. This method results in inventory carrying amounts that are less likely to represent current values and in costs of sales which more closely represent current costs.

Likewise, changes in natural gas, condensate and oil prices impact revenues and the present value of estimated future net revenues and cash flows from the Company's Exploration and Production operations. The Company may increase or decrease its production in response to market conditions. The carrying value of oil and natural gas assets may be subject to noncash writedowns based on changes in natural gas prices and other determining factors.

Changes in natural gas prices also influence the level of drilling activity in the Gulf of Mexico. The Company's Marine Services operation, whose customers include offshore drilling contractors and related industries, could be impacted by significant fluctuations in natural gas prices. The Company's Marine Services segment uses the first-in, first-out ("FIFO") method of accounting for its inventories of fuel. Changes in fuel prices can significantly impact inventory valuations and costs of sales in this segment.

CAPITAL RESOURCES AND LIQUIDITY

OVERVIEW

The Company's primary sources of liquidity are its cash and cash equivalents, internal cash generation and external financing. During the first nine months of 1997, the Company made capital expenditures exceeding $95 million, which were funded through a combination of cash flows from operations of $71 million, external financing of $16 million and available cash balances. Subsequently, in October 1997, the Company obtained a $16.2 million term loan to finance the expansion of the refinery hydrocracker unit (see Note 3 of Notes to Condensed Consolidated Financial Statements). At September 30, 1997, the Company's debt-to-capitalization ratio was 22% which enhances the Company's ability to access capital markets.

The Company is focused on its strategic plans to make operational improvements and continues to assess its asset base in order to maximize returns and develop full value through strategic diversification and acquisitions in all of its operating segments. This ongoing assessment includes, in the Exploration and Production segment, evaluating ways in which the Company could diversify its oil and gas reserve base and offset the impact of declining production through domestic development, exploration and acquisition outside of the Bob West Field. In the Refining and Marketing segment, the Company has been engaged in studies to improve profitability and has also

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CONFORMED SUBMISSION TYPE: 10-Q
PUBLIC DOCUMENT COUNT: 5
CONFORMED PERIOD OF REPORT: 19970930
FILED AS OF DATE: 19971114
SROS: NYSE
SROS: PSE

FILER:

COMPANY DATA:
COMPANY CONFORMED NAME: TESORO PETROLEUM CORP /NEW/
CENTRAL INDEX KEY: 0000050104
STANDARD INDUSTRIAL CLASSIFICATION: PETROLEUM REFINING [2911]
IRS NUMBER: 950862768
STATE OF INCORPORATION: DE
FISCAL YEAR END: 1231

FILING VALUES:
FORM TYPE: 10-Q
SEC ACT:
SEC FILE NUMBER: 001-03473
FILM NUMBER: 97720404

BUSINESS ADDRESS:
STREET 1: 8700 TESORO DR
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1997

OR

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

FOR THE TRANSITION PERIOD FROM . . . . TO . . . .

COMMISSION FILE NUMBER 1-3473

TESORO PETROLEUM CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	95-0862768
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

8700 TESORO DRIVE, SAN ANTONIO, TEXAS 78217-6218
(Address of Principal Executive Offices) (Zip Code)

210-828-8484
(Registrant's Telephone Number, Including Area Code)

==============================

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the

Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
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There were 26,750,314 shares of the Registrant's Common Stock outstanding at October 31, 1997.

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TESORO PETROLEUM CORPORATION AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1997

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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<CAPTION>

TESORO PETROLEUM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands except per share amounts)

	September 30, 1997	December 31, 1996<FN1>
ASSETS		
<S>	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents	$ 7,379	22,796
Receivables, less allowance for doubtful accounts of $1,420 ($1,515 at December 31, 1996).	83,899	128,013
Inventories:		
Crude oil and wholesale refined products, at LIFO.	55,431	55,858
Merchandise and other refined products	14,333	13,539
Materials and supplies	5,138	5,091
Prepayments and other	9,452	12,046
Total Current Assets.	175,632	237,343
PROPERTY, PLANT AND EQUIPMENT		
Refining and marketing.	358,792	328,522
Exploration and production (full-cost method of accounting) . .	257,003	198,480
Marine services	38,953	33,820
Corporate	13,170	12,531
	667,918	573,353

Less accumulated depreciation, depletion and amortization. . .	291,113	256,842
Net Property, Plant and Equipment	376,805	316,511
OTHER ASSETS	35,377	28,733
TOTAL ASSETS	$ 587,814	582,587

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable.	$ 57,473	80,747
Accrued liabilities	30,567	33,256
Current income taxes payable.	1,951	13,822
Current maturities of long-term debt and other obligations. . .	9,778	10,043
Total Current Liabilities.	99,769	137,868
DEFERRED INCOME TAXES.	24,552	19,151
OTHER LIABILITIES.	45,786	42,243
LONG-TERM DEBT AND OTHER OBLIGATIONS, LESS CURRENT MATURITIES.	90,104	79,260
COMMITMENTS AND CONTINGENCIES (Note 4)		
STOCKHOLDERS' EQUITY		
Common Stock, par value $.16-2/3; authorized 50,000,000 shares; 26,498,745 shares issued (26,414,134 in 1996).	4,416	4,402
Additional paid-in capital.	190,093	189,368
Retained earnings	134,043	110,295
Treasury stock, 66,998 shares at cost	(949)	-
Total Stockholders' Equity	327,603	304,065
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.	$ 587,814	582,587

<FN>

The accompanying notes are an integral part of these condensed consolidated financial statements.
<FN1> The balance sheet at December 31, 1996 has been taken from the audited consolidated financial statements at th condensed.
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TESORO PETROLEUM CORPORATION AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS
(Unaudited)
(In thousands except per share amounts)

	Three Months Ended September 30, 1997	Three Months Ended September 30, 1996	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
<S>	<C>	<C>	<C>	<C>
REVENUES				
Refining and marketing	$ 198,815	203,661	534,986	563,767
Exploration and production	19,821	26,476	61,769	83,933
Marine services	32,433	32,660	98,266	87,467
Other income	403	(725)	4,609	4,378
Total Revenues	251,472	262,072	699,630	739,545
OPERATING COSTS AND EXPENSES				
Refining and marketing	188,014	194,156	508,926	545,303
Exploration and production	3,054	2,416	8,836	8,767
Marine services	29,691	30,273	93,406	82,153
Depreciation, depletion and amortization	11,357	10,026	34,183	29,797
Total Operating Costs and Expenses	232,116	236,871	645,351	666,020
OPERATING PROFIT	19,356	25,201	54,279	73,525
General and Administrative	(3,416)	(3,056)	(9,599)	(8,960)
Interest Expense, Net of Capitalized Interest in 1997	(1,481)	(4,142)	(4,634)	(12,142)
Interest Income	135	7,100	1,459	7,681
Other Expense, Net	(1,233)	(1,254)	(3,465)	(8,802)
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	13,361	23,849	38,040	51,302

Income Tax Provision		5,382	7,686	14,292	17,159
EARNINGS BEFORE EXTRAORDINARY ITEM		7,979	16,163	23,748	34,143
Extraordinary Loss on Extinguishment of Debt, Net of Income Tax Benefit of $886 in 1996		-	(2,290)	-	(2,290)
NET EARNINGS	$	7,979	13,873	23,748	31,853
EARNINGS PER SHARE					
Earnings Before Extraordinary Item	$	.30	.61	.88	1.30
Extraordinary Loss, Net of Income Tax Benefit		-	(.09)	-	(.09)
Net Earnings	$	.30	.52	.88	1.21
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES		26,938	26,816	26,857	26,370

<FN>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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TESORO PETROLEUM CORPORATION AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)
(In thousands)

		Nine Months Ended September 30	
		1997	1996
<S>		<C>	<C>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net earnings	$	23,748	31,853
Adjustments to reconcile net earnings to net cash from operating activities:			
Extraordinary loss on extinguishment of debt, net of income tax benefit		-	2,290
Depreciation, depletion and amortization		34,643	30,386
Loss on sale of assets		30	678
Amortization of deferred charges and other		622	1,316
Changes in operating assets and liabilities:			
Receivable from Tennessee Gas Pipeline Company		-	50,680

Receivables, other trade		45,882	(6,228)
Inventories		358	16,901
Other assets		(3,219)	793
Accounts payable and other current liabilities		(38,557)	8,066
Obligation payments to State of Alaska		(3,406)	(3,145)
Deferred income taxes		5,401	12,051
Other liabilities and obligations		5,569	2,760
Net cash from operating activities		71,071	148,401
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Capital expenditures		(95,082)	(46,050)
Acquisition of Coastwide Energy Services, Inc.		-	(7,720)
Other		(3,155)	(3,259)
Net cash used in investing activities		(98,237)	(57,029)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Borrowings, net of repayments of $28,500 in 1997 and $112,000 in 1996, under revolving credit facilities		15,828	-
Payments of long-term debt		(3,287)	(2,885)
Purchase of treasury stock		(1,098)	-
Other		306	1,144
Net cash from (used in) financing activities		11,749	(1,741)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(15,417)	89,631
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		22,796	13,941
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	7,379	103,572
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Interest paid, net of $313 capitalized in 1997	$	1,654	8,879
Income taxes paid	$	20,764	3,925

<FN>
The accompanying notes are an integral part of these condensed consolidated financial statements.
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TESORO PETROLEUM CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The interim condensed consolidated financial statements and notes thereto of Tesoro Petroleum Corporation and its subsidiaries (collectively, the "Company" or "Tesoro") have been prepared by management without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, the accompanying financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of results for the periods presented. Such adjustments are of a normal recurring nature. Certain information and notes normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the SEC's rules and regulations. However, management believes that the disclosures presented herein are adequate to make the information not misleading. The accompanying condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

The preparation of these condensed consolidated financial statements required the use of management's best estimates and judgment that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods. Actual results could differ from those estimates. The results of operations for any interim period are not necessarily indicative of results for the full year.

Certain reclassifications have been made to amounts previously reported to conform to the current presentation of financial information.

NOTE 2 - ACQUISITION

In July 1997, the Company purchased the interests held by Zapata Exploration Company ("Zapata"), a wholly-owned subsidiary of Zapata Corporation, in two jointly held contract blocks (Block 18 and Block 20) in southern Bolivia. Zapata held a 25% interest in Block 18 and a 27.4% interest in Block 20. The purchase price was approximately $20 million, which included working capital and assumption of certain liabilities. The assignment of interests has been approved by the Bolivian government. The Company's net proved Bolivian reserves, which were estimated to be 253 billion cubic feet equivalent at 1996 year-end, increased more than 30% as a result of the acquisition.

NOTE 3 - LONG-TERM DEBT

In September 1997, the Company negotiated an amendment to its $150 million corporate revolving credit facility ("Credit Facility"). The amendment reduces the rate on cash borrowings under the Credit Facility to (i) the London Interbank Offered Rate ("LIBOR") plus 1.0% or (ii) the prime rate. Fees on outstanding letters of credit are reduced to 1.0%. The amendment also increases the Company's borrowing base and makes certain covenants in the Credit Facility less restrictive. Additionally, the Company is now permitted to utilize unsecured letters of credit outside of the Credit Facility up to $40 million (none outstanding at September 30, 1997). Under the Credit Facility, the Company had letters of credit of $33.9 million, primarily for royalty crude oil purchases from the State of Alaska, and cash borrowings of $11.9 million outstanding at September 30, 1997.

In early October 1997, the Company completed an expansion of the hydrocracker unit at its Alaska refinery. The expansion, together with the addition of a new, high-yield jet fuel catalyst, has an estimated cost of approximately $19 million and is expected to improve the Company's refinery feedstock and product slate beginning in the fourth quarter of 1997. In October 1997, the National Bank of Alaska ("NBA") and the Alaska Industrial Development and Export Authority ("AIDEA"), under a loan agreement ("Hydrocracker Loan") entered into between the Company and NBA, provided a $16.2 million loan to the Company towards the cost of the hydrocracker expansion. One-half of the loan was funded by NBA and the other half was funded by AIDEA. The Hydrocracker Loan matures on or before April 1, 2005 and requires 28 equal quarterly principal payments beginning April 1998 together with interest at the unsecured 90-day commercial paper rate (5.55% at October 30, 1997) plus (i) 2.6% per annum on 50% of the amount borrowed and (ii) 2.35% per annum on the other 50% borrowed, each to be

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adjusted quarterly. The Hydrocracker Loan is secured by a second lien on the refinery. Under the terms of the Hydrocracker Loan, the Company is required to maintain specified levels of working capital and tangible net worth.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, which change frequently, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites or install additional controls or other modifications or changes in use for certain emission sources. The Company is currently involved with a waste disposal site near Abbeville, Louisiana, at which it has been named a potentially responsible party under the Federal Superfund law. Although this law might impose joint and several liability upon each party at the site, the extent of the Company's allocated financial contributions to the cleanup of the site is expected to be limited based upon the number of companies, volumes of waste involved and an estimated total cost of approximately $500,000 among all of the parties to close the site. The Company is currently involved in settlement discussions with the Environmental Protection Agency and other potentially responsible parties at the Abbeville, Louisiana site. The Company expects, based on these discussions, that its liability will not exceed $25,000. The Company is also involved in remedial responses and has incurred cleanup expenditures associated with environmental matters at a number of sites, including certain of its own properties.

At September 30, 1997, the Company's accruals for environmental expenses amounted to $8.7 million, which included a noncurrent liability of approximately $3.1 million for remediation of Kenai Pipe Line Company's ("KPL") properties that has been funded by the former owners of KPL through a restricted escrow deposit. Based on currently available information, including the participation of other parties or former owners in remediation actions, the Company believes these accruals are adequate. In addition, to comply with environmental laws and regulations, the Company currently anticipates that it will make capital improvements of approximately $3 million in 1997 and $8 million in 1998. The Company also expects to spend approximately $6 million by the year 2002 for secondary containment systems for existing storage tanks in Alaska.

Conditions that require additional expenditures may exist for various Company sites, including, but not limited to, the Company's refinery, retail gasoline outlets (current and closed locations) and petroleum product terminals, and for compliance with the Clean Air Act. The amount of such future expenditures cannot currently be determined by the Company.

NOTE 5 - STOCKHOLDERS' EQUITY

STOCK REPURCHASE PROGRAM

On May 7, 1997, the Company's Board of Directors authorized the repurchase of up to 3 million shares (approximately 11% of the current outstanding shares) of Tesoro Common Stock in a buyback program that will extend through the end of 1998. Under the program, subject to certain conditions, the Company may repurchase from time to time Tesoro Common Stock in the open market and through privately negotiated transactions. Purchases will depend on price, market conditions and other factors and will be made primarily from cash flows. The repurchased Common Stock is accounted for as treasury stock and may be used for employee benefit plan requirements and other corporate purposes. For further information on the repurchase program and related restrictions, see "Capital Resources and Liquidity" in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 herein.

INCENTIVE COMPENSATION STRATEGY

In June 1996, the Company's Board of Directors unanimously approved a special incentive compensation strategy in order to encourage a longer-term focus for all employees to perform at an outstanding level. The strategy provides eligible employees with incentives to achieve a significant increase in the market price of the Company's Common Stock. Under the strategy, awards would be earned only if the market price of the Company's Common

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Stock reaches an average price per share of $20 or higher over any 20 consecutive trading days after June 30, 1997 and before December 31, 1998 (the "Performance Target"). In connection with this strategy, non-executive employees will be able to earn cash bonuses equal to 25% of their individual payroll amounts for the previous twelve complete months and certain executives have been granted, from the Company's Amended and Restated Executive Long-Term Incentive Plan ("Plan"), a total of 340,000 stock options at an exercise price of $11.375 per share, the fair market value (as defined in the Plan) of a share of the Company's Common Stock on the date of grant, and 350,000 shares of restricted Common Stock, all of which vest only upon achieving the Performance Target.

NOTE 6 - ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." SFAS No. 128 becomes effective for the Company in the fourth quarter of 1997. At that time, the Company will be required to present "basic" and "diluted" earnings per share and to restate earnings per share data presented in prior periods. Early adoption is not permitted. The Company believes that the adoption of SFAS No. 128 will not materially impact its earnings per share disclosures.

In June 1997, the FASB issued SFAS No.130, "Reporting Comprehensive Income," and SFAS No.131, "Disclosures about Segments of an Enterprise and Related Information." Both Statements become effective for periods beginning after December 15, 1997 with early adoption permitted. The Company is evaluating the effects these Statements will have on its financial reporting and disclosures. The Statements will have no effect on the Company's results of operations, financial position, capital resources or liquidity.

<PAGE>
ITEM 2. TESORO PETROLEUM CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1997
COMPARED TO THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1996

SUMMARY

Net earnings of $8.0 million, or $.30 per share, for the three months ended September 30, 1997 ("1997 Quarter") compare with net earnings of $13.9 million, or $.52 per share, for the three months ended September 30, 1996 ("1996 Quarter"). For the year-to-date period, net earnings of $23.8 million, or $.88 per share, for the nine months ended September 30, 1997 ("1997 Period") compare with net earnings of $31.9 million, or $1.21 per share, for the nine months ended September 30, 1996 ("1996 Period"). Results for the 1996 Quarter and Period included revenues from sales of natural gas at above-market prices under a contract with Tennessee Gas Pipeline Company ("Tennessee Gas") which was terminated effective October 1, 1996. Results of operations in 1997 and future years will no longer include above-market revenues from this contract. Significant items, including the impact of the Tennessee Gas contract, which affect the comparability between results for 1997 and 1996 are highlighted in the table below (in millions except per share amounts):

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
Net Earnings As Reported . . . . $	8.0	13.9	23.8	31.9
Extraordinary Loss on Debt Extinguishment, Net of Income Tax Benefit.	-	2.3	-	2.3
Earnings Before Extraordinary Item	8.0	16.2	23.8	34.2
Significant Items Affecting Comparability, Pretax:				
Operating profit from excess of Tennessee Gas contract prices over spot market prices	-	8.5	-	24.6
Interest and reimbursement of fees and costs from resolution of litigation.	-	7.9	-	7.9
Income from collection of Bolivian receivable.	-	-	2.2	-
Income from retroactive severance tax refunds.	-	-	1.8	5.0
Costs of shareholder consent solicitation resolved in April 1996	-	-	-	(2.3)
Employee terminations, restructuring costs and other	-	(.7)	-	(4.5)
Total Significant Items, Pretax	-	15.7	4.0	30.7
Income Tax Effect	-	4.4	1.2	8.3

Total Significant Items, Aftertax		-	11.3	2.8	22.4
Net Earnings Excluding Significant Items and Extraordinary Loss	$	8.0	4.9	21.0	11.8
Earnings Per Share:					
As Reported	$	.30	.52	.88	1.21
Extraordinary Loss		-	(.09)	-	(.09)
Significant Items:					
Impact of Tennessee Gas contract prices over spot market prices		-	.23	-	.68
Other significant items		-	.20	.10	.17
Excluding Significant Items and Extraordinary Loss	$	.30	.18	.78	.45

</TABLE>

As shown above, net earnings of $8.0 million ($.30 per share) in the 1997 Quarter would compare to $4.9 million ($.18 per share) when excluding the significant items in the 1996 Quarter. The resulting increase in net earnings in the 1997 Quarter was mainly attributable to improved profitability from each of the Company's business segments together with lower corporate interest expense. For the year-to-date periods, excluding significant items, net earnings would have been $21.0 million ($.78 per share) for the 1997 Period compared to $11.8 million ($.45 per share) for the 1996 Period. The increase in the 1997 Period was primarily due to higher spot market natural gas prices, better refined product margins and lower corporate interest expense. A discussion and analysis of the factors contributing to the Company's results of operations are presented below. The Company conducts its operations in the following business segments: Refining and Marketing, Exploration and Production, and Marine Services.

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REFINING AND MARKETING		Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions except per unit amounts)		1997	1996	1997	1996
<S>		<C>	<C>	<C>	<C>
Gross Operating Revenues:					
Refined products	$	177.5	169.9	486.9	465.7
Other, primarily crude oil resales and merchandise		21.3	33.8	48.1	98.1

Gross Operating Revenues	$	198.8	203.7	535.0	563.8
Total Operating Profit:					
Gross margin	$	34.2	31.7	94.8 18%	85.5 15%
Operating expenses		23.3	22.3	68.7	67.1
Depreciation and amortization		3.4	3.0	9.7	9.0
Loss on sale of assets and other		.1	.7	.1	.7
Operating Profit	$	7.4	5.7	16.3	8.7
Capital Expenditures	$	11.8	3.1	30.6	6.9
Refinery Throughput:					
Barrels per day		43,192	41,165	48,225	45,760
% Alaska North Slope crude oil		68%	69%	77%	71%
Refined Products Manufactured (average daily barrels)<FN1>:					
Gasoline		11,351	[illegible],953	12,499	12,717
Middle distillates		17,999	[illegible]7,690	20,400	19,143
Heavy oils and residual product		12,587	11,638	14,140	12,829
Other		1,910	2,214	2,500	2,709
Total Refined Products Manufactured		43,847	42,495	49,539	47,398
Refinery Operations - Product Spread ($/barrel)<FN1>:					
Average yield value of products manufactured	$	23.81	25.07	23.83	23.87
Cost of raw materials		17.92	19.33	18.69	19.03
Refinery Product Spread	$	5.89	5.74	5.14	4.84
Non-Refinery Margin, included in operating profit above ($ millions)<FN1><FN2>	$	10.8	10.0	27.1	24.9
Total Segment Product Sales (average daily barrels)<FN3>:					
Gasoline		18,592	18,073	18,156	18,751
Middle distillates		37,844	32,123	30,138	30,159
Heavy oils and residual product		13,748	16,489	17,700	14,594
Total Product Sales		70,184	66,685	65,994	63,504

		======	======	======	======
Total Segment Product Sales Prices ($/barrel):					
Gasoline	$	35.23	34.52	33.90	32.35
Middle distillates	$	27.00	29.33	28.46	28.08
Heavy oils and residual product	$	18.40	17.03	17.53	16.86
Total Segment Gross Margins on Product Sales ($/barrel)<FN4>:					
Average sales price	$	27.49	27.70	27.03	26.76
Average costs of sales		22.80	23.16	22.52	22.43
		------	------	------	------
Gross Margin	$	4.69	4.54	4.51	4.33
		======	======	======	======

<FN>
<FN1> Amounts reported in prior periods have been reclassified to conform with current presentation.
<FN2> Non-refinery margin includes margins on products purchased and resold, margins on products sold in markets outside of Alaska, intrasegment pipeline revenues, retail margins, and adjustments due to selling a volume and mix of products that is different than actual volumes manufactured.
<FN3> Sources of total products sales include products manufactured at the refinery, products drawn from inventory balances and products purchased from third parties. The Company's purchases of refined products for resale averaged approximately 24,700 and 13,600 barrels per day for the three months ended September 30, 1997 and 1996, respectively, and approximately 15,500 and 12,100 barrels per day for the nine months ended September 30, 1997 and 1996, respectively.
<FN4> Gross margins on total product sales include margins on sales of purchased products, together with the effect of changes in inventories.
</TABLE>

<PAGE>
REFINING AND MARKETING

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $7.4 million from the Company's Refining and Marketing segment during the 1997 Quarter represented a 30% improvement from the 1996 Quarter. The continued success of the Company's program to sell a larger portion of its refinery production within the core Alaska market, together with generally favorable industry conditions, contributed to this improvement. The Company's sales of gasoline and asphalt in Alaska increased in the 1997 Quarter as compared to the 1996 Quarter. Jet fuel sales also increased due to growing trans-Pacific air cargo traffic through the international airport in Anchorage.

The Company's refinery product spread averaged $5.89 per barrel in the 1997 Quarter, a $.15 per barrel improvement from the 1996 Quarter. The Company's refined product yield values decreased by 5% to $23.81 per barrel in the 1997 Quarter from $25.07 per barrel in the 1996 Quarter, while the Company's feedstock costs decreased by 7% to $17.92 per barrel in the 1997 Quarter from

$19.33 per barrel in the 1996 Quarter. The 1997 Quarter and 1996 Quarter both included scheduled turnarounds, during which the refinery was not fully operational. Margins from non-refinery activities increased to $10.8 million during the 1997 Quarter from $10.0 million in the 1996 Quarter due primarily to higher retail sales and improved margins on refined products sold outside Alaska.

The increase of $7.6 million in revenues from refined products sales during the 1997 Quarter was primarily due to higher sales volumes, which rose 5% to 70,184 barrels per day in the 1997 Quarter from 66,685 barrels per day in the 1996 Quarter. Other revenues declined by $12.5 million due primarily to lower sales volumes of previously purchased crude oil together with lower prices. During the 1997 Quarter, the Company had less crude oil available for resale as refinery throughput averaged 2,027 barrels per day more than in the 1996 Quarter. Costs of sales decreased in the 1997 Quarter due to lower prices for crude oil and refined products. The $1.0 million increase in operating expenses included higher employee costs associated in part with expanded marketing efforts and higher professional fees. The 1996 Quarter included a $.7 million write-down of a West Coast terminal that was subsequently sold.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $16.3 million in the 1997 Period compares to operating profit of $8.7 million in the 1996 Period. The Company's refinery spread of $5.14 per barrel in the 1997 Period improved 6% from the prior year period. The Company's production of jet fuel, a product in short supply in Alaska, was higher in the 1997 Period principally due to the use of an improved catalyst in the hydrocracker unit, a change made during the refinery turnaround in the 1996 Period. Margins from non-refinery activities increased to $27.1 million during the 1997 Period as compared to $24.9 million in the 1996 Period due primarily to higher retail sales and improved margins on refined products sold outside of Alaska.

Revenues from sales of refined products in the Company's Refining and Marketing segment increased by 5% during the 1997 Period due to higher sales volumes and prices. Other revenues declined by $50.0 million during the 1997 Period due primarily to lower sales volumes of crude oil together with lower prices. During the 1997 Period, the Company had less crude oil available for resale as refinery throughput averaged 2,465 barrels per day more than in the 1996 Period and fewer spot purchases of crude oil were made. Costs of sales decreased in the 1997 Period due to lower volumes of crude oil. The $1.6 million increase in operating expenses included higher employee costs and professional fees.

FUTURE IMPACT. The improvement in Refining and Marketing results have been due in part to the Company's marketing program to sell a larger portion of its refinery production within the core Alaska market. In addition, favorable summer and fall weather conditions in Alaska increased the demand for the Company's in-state sales during the 1997 Period. In early October 1997, the Company completed an expansion of its refinery hydrocracker unit, which increases the unit's capacity by approximately 25% to 12,500 barrels per day and enables the Company to produce more jet fuel. The expansion, together with the addition of a new, high-yield jet fuel catalyst, has an estimated cost of $19 million with a projected payback period of two years and is expected to favorably impact this segment's results beginning in the fourth quarter of 1997. The Company is also expanding its Alaskan retail operations with the construction of new outlets and remodeling of existing outlets. With respect to crude oil supply, beginning in October 1997, a subsidiary of the Company has contracts to purchase all of the approximately 34,000 barrels per day of Cook Inlet production for various periods of more than one year. In the 1997 Period, the Company processed approximately 9,300 barrels per day of Cook Inlet crude, or 19% of the refinery's throughput. The increase in Cook Inlet crude oil as a refinery feedstock will enable the Company to

Sells Crude to Subsidiary
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produce higher-valued products. Although the aforementioned initiatives are expected to improve the fundamental earnings potential of this segment, future profitability of this segment will continue to be influenced by market conditions, particularly as these conditions influence costs of crude oil relative to prices received for sales of refined products, and other additional factors that are beyond the control of the Company.

<TABLE>
<CAPTION>

EXPLORATION AND PRODUCTION	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions except per unit amounts)	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
U.S.<FN1><FN2>:				
Gross Operating Revenues . . . . $	15.9	23.0	53.3	73.4
Other Income (primarily retroactive severance tax refunds)	-	-	1.9	5.0
Production Costs	1.5	1.3	5.0	3.8
Administrative Support and Other Operating Expenses . . .	.6	.2	1.7	2.2
Depreciation, Depletion and Amortization.	7.0	6.2	22.2	18.9
Operating Profit - U.S..	6.8	15.3	26.3	53.5
BOLIVIA:				
Gross Operating Revenues.	3.8	3.4	8.4	10.5
Other Income (related to collection of a receivable). . .	-	-	2.2	-
Production Costs.	.3	.2	.7	.6
Administrative Support and Other Operating Expenses . . .	.5	.6	1.3	2.1

Depreciation, Depletion and Amortization.		.5	.4	1.0	1.0
Operating Profit - Bolivia		2.5	2.2	7.6	6.8
TOTAL OPERATING PROFIT - EXPLORATION AND PRODUCTION. . . .	$	9.3	17.5	33.9	60.3
U.S.:					
Average Daily Net Production:					
Natural gas (Mcf).		79,683	80,612	86,317	88,723
Oil (barrels).		93	39	119	15
Average Prices:					
Natural gas ($/Mcf) -					
Spot market<FN3>.	$	2.01	1.71	2.08	1.77
Average<FN2>.	$	2.01	2.92	2.08	2.85
Oil ($/barrel)	$	18.23	20.93	19.44	20.59
Average Operating Expenses ($/Mcfe) -					
Lease operating expenses	$	.21	.14	.18	.12
Severance taxes.		-	.04	.03	.04
Total Production Costs.		.21	.18	.21	.16
Administrative support		.09	.01	.07	.08
Total Operating Expenses.	$	.30	.19	.28	.24
Depletion ($/Mcfe).	$	.93	.82	.92	.77
Capital Expenditures.	$	16.3	11.7	32.5	27.1
BOLIVIA:					
Average Daily Net Production:					
Natural gas (Mcf).		26,856	20,945	18,452	21,355
Condensate (barrels)		760	605	529	611
Average Prices:					
Natural gas ($/Mcf).	$	1.13	1.31	1.20	1.33
Condensate ($/barrel).	$	15.00	16.92	16.23	16.50
Average Operating Expenses ($/Mcfe) -					
Production costs	$	.10	.11	.11	.10
Value-added taxes.		-	.08	-	.07
Administrative support		.20	.24	.25	.24
Total Operating Expenses.	$	.30	.43	.36	.41
Depletion ($/Mcfe).	$	.19	.17	.18	.15
Capital Expenditures.	$	20.0	.8	26.0	5.7

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<FN>
<FN1> Represents the Company's U.S. oil and gas operations combined with gas transportation activities.
<FN2> Results for 1996 included revenues from above-market pricing provisions of a contract with Tennessee Gas which was terminated effective October 1, 1996. Operating profit for the three and nine months ended September 30, 1996 included $8.5 million and $24.6 million, respectively, for the excess of these contract prices over spot market prices. Net natural

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gas production sold under the contract averaged approximately 14 Mmcf per day for both the three months and nine months ended September 30, 1996.
<FN3> Includes effects of the Company's natural gas commodity price agreements which amounted to a loss of $.19 per Mcf for the three months ended September 30, 1996, and losses of $.06 per Mcf and $.15 per Mcf for the nine months ended September 30, 1997 and 1996, respectively.
<FN4> Mcf is defined as one thousand cubic feet; Mcfe is defined as net equivalent one thousand cubic feet.
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EXPLORATION AND PRODUCTION - U. S.

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $6.8 million from the Company's U.S. operations in the 1997 Quarter compares to operating profit of $15.3 million in the 1996 Quarter. The 1996 Quarter included revenues from the sale of natural gas at above-market prices under a contract with Tennessee Gas. The excess of these contract prices over spot market prices contributed approximately $8.5 million to operating profit in the 1996 Quarter. When excluding the incremental value of the Tennessee Gas contract from the 1996 Quarter, operating profit from the Company's U.S. operations for the 1997 Quarter would be relatively unchanged as total production volumes remained flat during both quarters and increases in spot market natural gas prices were offset by increased depreciation and depletion and operating expenses.

Prices realized by the Company on spot market natural gas production increased to $2.01 per Mcf in the 1997 Quarter from $1.71 per Mcf in the 1996 Quarter. On a weighted-average basis, the Company's natural gas sales price was $2.92 per Mcf in the 1996 Quarter due to sales under the Tennessee Gas contract. The Company's production averaged 80.2 million cubic feet equivalents ("Mmcfe") per day in the 1997 Quarter compared to 80.8 Mmcfe per day in the 1996 Quarter. This decrease in the Company's production consisted of a 14.0 million cubic feet ("Mmcf") per day decline from the Bob West Field partially offset by a 13.4 Mmcfe per day production increase from other U.S. fields. The Company's production outside of the Bob West Field rose to 23% of total production during the 1997 Quarter, as compared to 6% in the 1996 Quarter. In September 1997, production began from the Company's interest in the Vinegarone East Field in Val

Verde Basin of Southwest Texas at an initial flow rate of approximately 12 Mmcf per day gross (8.6 Mmcf per day net). Drilling is underway on two development wells in this field. In addition, the Cuellar 1 well, which was discovered during the 1997 Quarter in the Wilcox Trend of South Texas, began production in October 1997 at 8.0 Mmcf per day gross (6.0 Mmcf per day net). The Company's net U.S. production reached 90 Mmcf per day in late October 1997.

Gross operating revenues from the Company's U.S. operations, after excluding amounts related to Tennessee Gas, increased due to the higher spot market prices. Production costs increased by $.2 million in the 1997 Quarter due primarily to higher per-unit lease operating expenses from the Company's newer fields. Depreciation and depletion increased by $.8 million, or 13%, due to a higher depletion rate.

From time to time, the Company enters into commodity price agreements to reduce the risk caused by fluctuation in the prices of natural gas in the spot market. During the 1996 Quarter, the Company used such agreements to set the price of 38% of the natural gas production that it sold in the spot market and recognized a loss of $1.2 million ($.19 per Mcf) related to these price agreements. The Company did not have any such transactions during the 1997 Quarter.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $26.3 million from the Company's U.S. operations in the 1997 Period compares to $53.5 million in the 1996 Period. Comparability between these periods was impacted by certain significant items. The 1996 Period included operating profit of $24.6 million from the excess of Tennessee Gas contract prices over spot market prices. Results of operations in 1997 and future years will no longer include above-market revenues from this contract which was terminated effective October 1, 1996. Operating profit also included retroactive severance tax refunds of $1.8 million and $5.0 million in the 1997 and 1996 Periods, respectively. Excluding the incremental value of the Tennessee Gas contract and retroactive severance tax refunds, operating profit from the Company's U.S. operations would have been $24.5 million in the 1997 Period compared to $23.9 million in the 1996 Period. The resulting increase of $.6 million was primarily attributable to higher spot market prices for sales of natural gas partially offset by higher depreciation and depletion.

Prices realized by the Company on its spot natural gas production increased 18% to $2.08 per Mcf in the 1997 Period from $1.77 per Mcf in the 1996 Period. The increase in average spot market prices was attributable in part to unusually high prices received during January and February when there was unusually cold weather combined with below-normal natural gas storage levels. On a weighted-average basis, the Company's natural

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gas sales price was $2.85 per Mcf in the 1996 Period due to sales under the

Tennessee Gas contract. The Company's production averaged 87.0 Mmcfe per day in the 1997 Period, a decrease of 1.8 Mmcfe per day from the 1996 Period. This decrease in the Company's production consisted of a 13.9 Mmcf per day decline from the Bob West Field partially offset by a 12.1 Mmcfe per day increase from other U.S. fields. Production from the Bob West Field, which accounted for 95% of the Company's total U.S. production in the 1996 Period, was reduced to 81% in the 1997 Period.

Gross operating revenues from the Company's U.S. operations, after excluding amounts related to Tennessee Gas, increased due to the higher spot market prices. Production costs increased by $1.2 million during the 1997 Period due to higher per-unit lease operating expenses from the Company's newer fields. Administrative support and other operating expenses decreased by $.5 million. Depreciation and depletion increased by $3.3 million, or 17%, due to a higher depletion rate.

From time to time, the Company enters into commodity price agreements to reduce the risk caused by fluctuations in the prices of natural gas in the spot market. In addition, from time to time the Company has entered into price agreements with collars, under which no payments will be made by either party unless the price falls below a designated floor price or above a designated ceiling price, at which time the Company receives or pays the difference, respectively. During the 1997 and 1996 Periods, the Company used such agreements to set the price of 11% and 37%, respectively, of the natural gas production that it sold in the spot market. During the 1997 and 1996 Periods, the Company realized losses of $1.6 million ($.06 per Mcf) and $2.9 million ($.15 per Mcf), respectively, from these price agreements. At September 30, 1997, the Company has no remaining price agreements outstanding for the year.

EXPLORATION AND PRODUCTION - BOLIVIA

HYDROCARBONS LAW. In 1996, a new Hydrocarbons Law was passed by the Bolivian government that significantly impacts the Company's operations in Bolivia. The new law, among other matters, granted the Company the option to convert its Contracts of Operation to new Shared Risk Contracts. On November 6, 1997, the Company completed the conversion of its Contracts of Operation for Block 18 and Block 20 into four Shared Risk Contracts. The new contracts have an effective date of July 29, 1996 and extend the Company's term of operation, provide more favorable acreage relinquishment terms and provide for a more favorable fiscal regime of royalties and taxes. The new contract for Block 18 is extended to the year 2017. The new contracts for Block 20 are extended to the year 2029 for Block 20-West and Block 20-East, which are in the exploration phase, and to the year 2018 for Block 20-Los Suris that is in the development phase.

FARMOUT. A farmout agreement executed June 19, 1997, between the Company and Total Exploration Production Bolivie, S.A. ("Total"), an affiliate of Total S.A., became effective on a portion of Block 20-West on November 6, 1997. Pursuant to the farmout agreement, Total established a financial guarantee to the Bolivian government to guarantee the performance of exploration work on Block 20-West. Under the farmout agreement, Total has the right to drill, at its sole cost, two exploratory wells to earn a 75 percent interest in the farmout area which consists of 315,000 acres of Block 20-West. The assignment of interest by the Company to Total, which is subject to reversion if Total does not earn the interest, has been approved by the Bolivian government and is expected to become effective in the fourth quarter of 1997. It is anticipated that Total will spud the first well by mid-1998.

YPFB AND YPF CONTRACT. The Company's Bolivian natural gas production has been sold to Yacimientos Petroliferos Fiscales Bolivianos ("YPFB"), which in turn sells the natural gas to Yacimientos Petroliferos Fiscales, SA ("YPF"), a publicly-held company based in Argentina. Currently, the Company's sales of natural gas production is based on the volume and pricing terms in the contract between YPFB and YPF. The contract to sell gas to YPF expired March 31, 1997 and a contract extension was signed effective April 1, 1997 extending the contract term two years to March 31, 1999 with an option to extend the contract a maximum of one additional year if the pipeline being constructed from Bolivia to Brazil is not complete. In the contract extension, YPF negotiated an 11% reduction in the minimum contract volume it is required to import from Bolivia, which in turn resulted in a corresponding 11% reduction of Tesoro's minimum contract volume.

ACCESS TO NEW MARKETS. A lack of market access has constrained natural gas production in Bolivia. Preliminary work on a new 1,900-mile pipeline that will link Bolivia's gas reserves with markets in Brazil has begun and the pipeline is expected to be operational in early 1999.

THREE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $2.5 million from the Company's Bolivian operations in the 1997 Quarter compares to

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operating profit of $2.2 million in the 1996 Quarter. With the Company's purchase of Zapata's interests in Block 18 and Block 20 in July 1997, the Company now holds a 100% interest in both blocks, subject to the farmout agreement with Total (see Note 2 of Notes to Condensed Consolidated Financial Statements). Beginning in the 1997 Quarter, the Company's net share of production from Block 18 increased by approximately 33% as a result of this purchase. Block 20 is currently shut-in waiting on the construction of the pipeline to Brazil, which is expected to be operational in early 1999. Natural gas prices for Bolivian production fell to $1.13 per Mcf in the 1997 Quarter, a 14% drop from the 1996 Quarter.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 1996. Operating profit of $7.6 million from the Company's Bolivian operations in the 1997 Period compares to operating profit of $6.8 million in the 1996 Period. The 1997 Period included income of $2.2 million related to the collection of a receivable for prior years production. Excluding this income, operating profit would have decreased by $1.4 million as production of natural gas and condensate fell by 14%. As discussed above, the Company's production rose during the 1997 Quarter due to the purchase of the Zapata interests in July 1997 which will also benefit future periods. However, earlier in the year, the Company's Bolivian natural gas production was lower due to a reduction in minimum takes under the new contract between YPFB and YPF and also due to constraints arising from repairs to a non-Company-owned pipeline that transports gas from Bolivia to Argentina. A replacement pipeline is now operational, which has restored full capacity. During the 1996 Period, production was higher due to requests from YPFB for additional production from the Company to meet export specifications. Natural gas prices declined to $1.20 per Mcf in the 1997 Period compared to $1.33 per Mcf in the 1996 Period. Administrative support and other operating expenses decreased by $.8 million in the 1997 Period due primarily to the reduced production levels.

<TABLE>
<CAPTION>

MARINE SERVICES		Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)		1997	1996	1997	1996
<S>		<C>	<C>	<C>	<C>
Gross Operating Revenues:					
Fuels	$	25.2	26.0	77.6	70.4
Lubricants and other		4.2	4.1	12.3	10.9
Services		3.1	2.6	8.4	6.2
Gross Operating Revenues		32.5	32.7	98.3	87.5
Costs of Sales		22.9	24.5	72.6	66.7
Gross Profit		9.6	8.2	25.7	20.8
Operating Expenses and Other		6.5	5.8	20.4	15.4
Depreciation and Amortization		.4	.4	1.2	.9
Operating Profit	$	2.7	2.0	4.1	4.5
Sales Volumes (millions of gallons):					
Fuels, primarily diesel		39.1	37.8	116.2	107.4
Lubricants		.7	.7	2.0	1.9
Capital Expenditures	$	2.0	1.2	5.3	6.2

</TABLE>

For the 1997 Quarter, gross operating revenues declined by $.2 million due primarily to lower fuel sales prices partly offset by increased fuel volumes. The $1.6 million decrease in cost of sales correlates to these lower fuel market prices. The 19% increase in service revenues was associated with the increased rig activity in the Gulf of Mexico and the Company's focus to serve these customers. The improvement of $1.4 million in gross profit was partly offset by higher operating expenses associated with the increased sales volumes and service revenues.

For the 1997 Period, gross operating revenues increased by $10.8 million, with an 11% increase in fuels and lubricants revenues and a 35% increase in service revenues. These increases were mainly due to added locations and associated volumes stemming from an acquisition consummated in February 1996 together with internal growth initiatives. Costs of sales during the 1997 Period increased due to the higher volumes and also included a $.7 million charge associated with inventory valuations as market prices declined from year-end levels. The improvement of $4.9 million in gross profit during the 1997 Period was offset by higher operating and other expenses associated with the increased activity and upgrades to facilities and services.

The Marine Services segment's business is largely dependent upon the volume of oil and gas drilling, workover, construction and seismic activity in the Gulf of Mexico.

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GENERAL AND ADMINISTRATIVE

General and administrative expense increased by $.3 million and $.6 million during the 1997 Quarter and Period, respectively. These increases were primarily due to higher employee costs partially offset by reduced professional fees and insurance costs.

INTEREST EXPENSE AND INTEREST INCOME

Interest expense decreased by $2.6 million and $7.5 million during the 1997 Quarter and Period, respectively. These decreases were primarily due to the Company's redemption of $74.1 million of public debt in November 1996 which has resulted in interest expense savings of approximately 60% in the 1997 Quarter and Period.

Interest income decreased by $6.9 million and $6.2 million during the 1997 Quarter and Period, respectively. The 1996 Quarter and Period included interest of approximately $7 million received from Tennessee Gas in conjunction with the collection of a receivable which resulted from underpayment for natural gas sold in prior periods. The 1997 Period included interest income of approximately $.4 million related to the collection of a Bolivia receivable.

OTHER EXPENSE, NET

For the 1997 Period, other expense decreased by $5.3 million primarily due to charges incurred in the prior year period for shareholder consent solicitation costs of $2.3 million, which was resolved in April 1996, together with a write-off of deferred financing costs and employee termination costs with no material comparable costs recorded in the current period.

INCOME TAX PROVISION

Income taxes decreased by $2.2 million and $2.8 million during the 1997 Quarter and Period, respectively. These decreases were primarily due to lower earnings.

IMPACT OF CHANGING PRICES

The Company's operating results and cash flows are sensitive to the volatile changes in energy prices. Major shifts in the cost of crude oil used for refinery feedstocks and the price of refined products can result in a change in margin from the Refining and Marketing operations, as prices received for refined products may or may not keep pace with changes in crude oil costs. These energy prices, together with volume levels, also determine the carrying value of crude oil and refined product inventory. The Company uses the last-in, first-out ("LIFO") method of accounting for inventories of crude oil and U.S. wholesale refined products. This method results in inventory carrying amounts that are less likely to represent current values and in costs of sales which more closely represent current costs.

Likewise, changes in natural gas, condensate and oil prices impact revenues and the present value of estimated future net revenues and cash flows from the Company's Exploration and Production operations. The Company may increase or decrease its production in response to market conditions. The carrying value of oil and natural gas assets may be subject to noncash writedowns based on changes in natural gas prices and other determining factors.

Changes in natural gas prices also influence the level of drilling activity in the Gulf of Mexico. The Company's Marine Services operation, whose customers include offshore drilling contractors and related industries, could be impacted by significant fluctuations in natural gas prices. The Company's Marine Services segment uses the first-in, first-out ("FIFO") method of accounting for its inventories of fuel. Changes in fuel prices can significantly impact inventory valuations and costs of sales in this segment.

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CAPITAL RESOURCES AND LIQUIDITY

OVERVIEW

The Company's primary sources of liquidity are its cash and cash equivalents, internal cash generation and external financing. During the first nine months of 1997, the Company made capital expenditures exceeding $95 million, which were funded through a combination of cash flows from operations of $71 million, external financing of $16 million and available cash balances. Subsequently, in October 1997, the Company obtained a $16.2 million term loan to finance the expansion of the refinery hydrocracker unit (see Note 3 of Notes to Condensed Consolidated Financial Statements). At September 30, 1997, the Company's debt-to-capitalization ratio was 22% which enhances the Company's ability to access capital markets.

The Company is focused on its strategic plans to make operational improvements and continues to assess its asset base in order to maximize returns and develop full value through strategic diversification and acquisitions in all of its operating segments. This ongoing assessment includes, in the Exploration and Production segment, evaluating ways in which the Company could diversify its oil and gas reserve base and offset the impact of declining production through domestic development, exploration and acquisition outside of the Bob West Field. In the Refining and Marketing segment, the Company has been engaged in studies to improve profitability and has also evaluated possible joint ventures, strategic alliances or business combinations; such evaluations have not resulted in any significant transaction but operating strategies have been implemented to optimize the product and feedstock slates, improve efficiencies and reliability, and expand marketing to increase placement of products in Alaska. In the Marine Services segment, the Company continues to pursue opportunities for expansion as well as optimizing existing operations.

The Company operates in an environment where its liquidity and capital resources are impacted by changes in the supply of and demand for crude oil, natural gas and refined petroleum products, market uncertainty and a variety of additional risks that are beyond the control of the Company. These risks include, among others, the level of consumer product demand, weather conditions, the proximity of the Company's natural gas reserves to pipelines, the capacities of such pipelines, fluctuations in seasonal demand, governmental regulations, the price and availability of alternative fuels and overall market and economic conditions. The Company's future capital expenditures as well as borrowings under its credit arrangements and other sources of capital will be affected by these conditions.

STOCK REPURCHASE PROGRAM

On May 7, 1997, the Company's Board of Directors authorized the repurchase of up to 3 million shares (approximately 11% of the current outstanding shares) of Tesoro Common Stock in a buyback program that will extend through the end of