CALIFORNIA STATE LANDS COMMISSION
PREVENTION FIRST 2012 SYMPOSIUM

FUTURE OF TRANSPORTATION FUELS: A MANUFACTURER'S PERSPECTIVE

October 23, 2012

Greg Goff
President and CEO
Tesoro Corporation

WHO IS TESORO?

	Current	Future[1]	California[1]
Refineries	7	7	2
Capacity (MBD)	675	941	529
Retail Stations	1,375	2,175	1,240
Employees	5,400	7,100	3,900

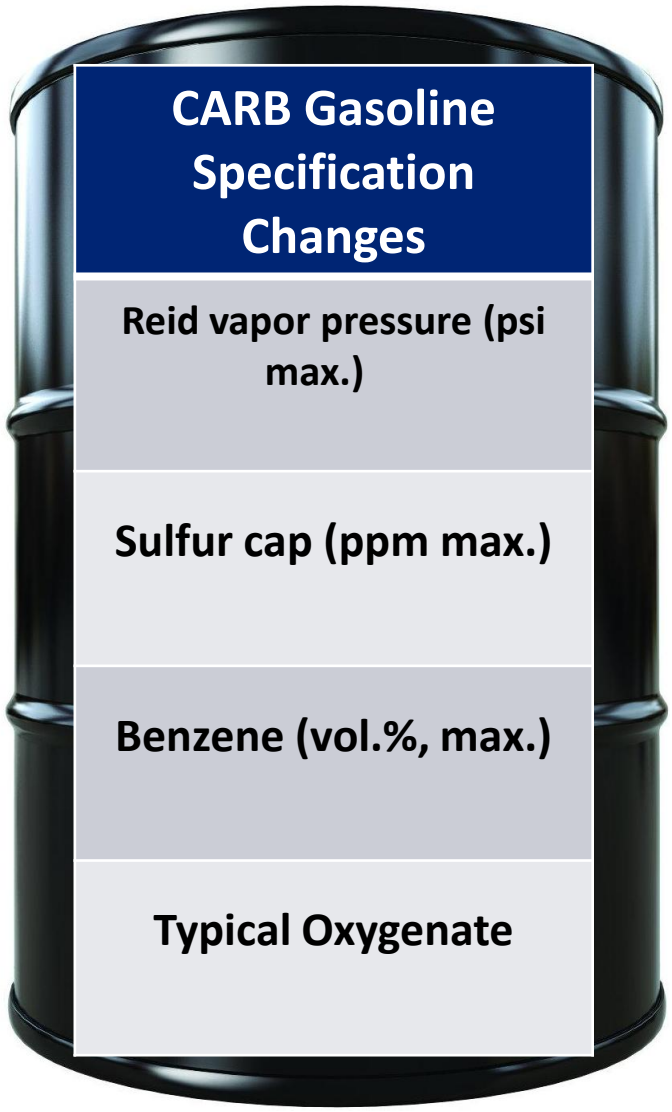
USA GASOLINE

ampm (1)

ARCO (1)

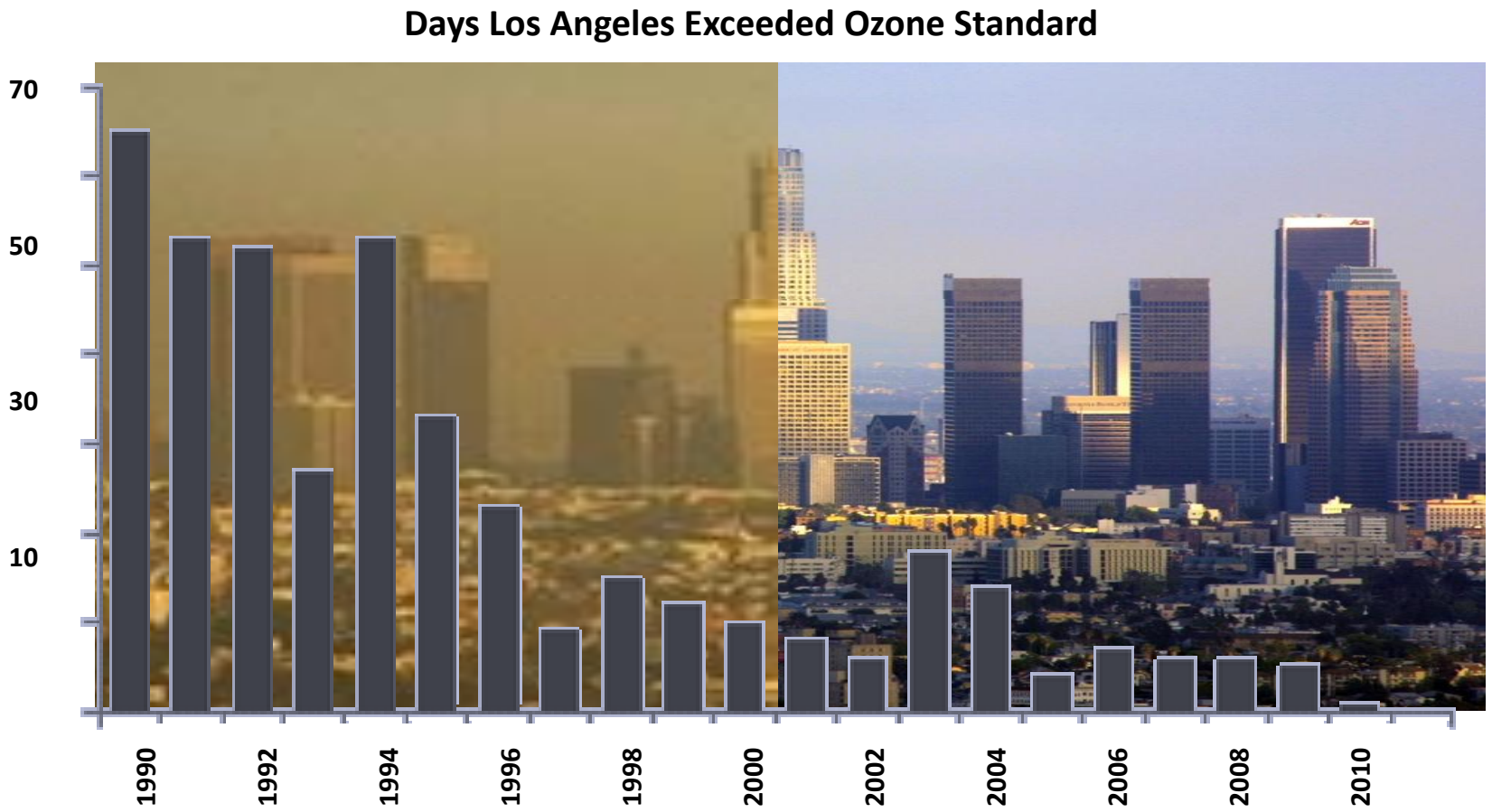
(1) Acquisition subject to regulatory approval by FTC and California Attorney General
(2) Asset currently for sale

CA FUEL REGULATIONS – A LOOK BACK



CARB Gasoline Specification Changes	Phase 1 1992	Phase 2 1996	Phase 3 2004	Phase 4 2010
Reid vapor pressure (psi max.)	7.8	7.00	7.00	7.20
Sulfur cap (ppm max.)	300	80	60	20
Benzene (vol.%, max.)	Not regulated	1.20	1.10	1.10
Typical Oxygenate	Ethanol or MTBE (winter only)	MTBE	MTBE Banned 5.5% to 7.7% Ethanol	10% Ethanol

AIR QUALITY TREND IN LOS ANGELES

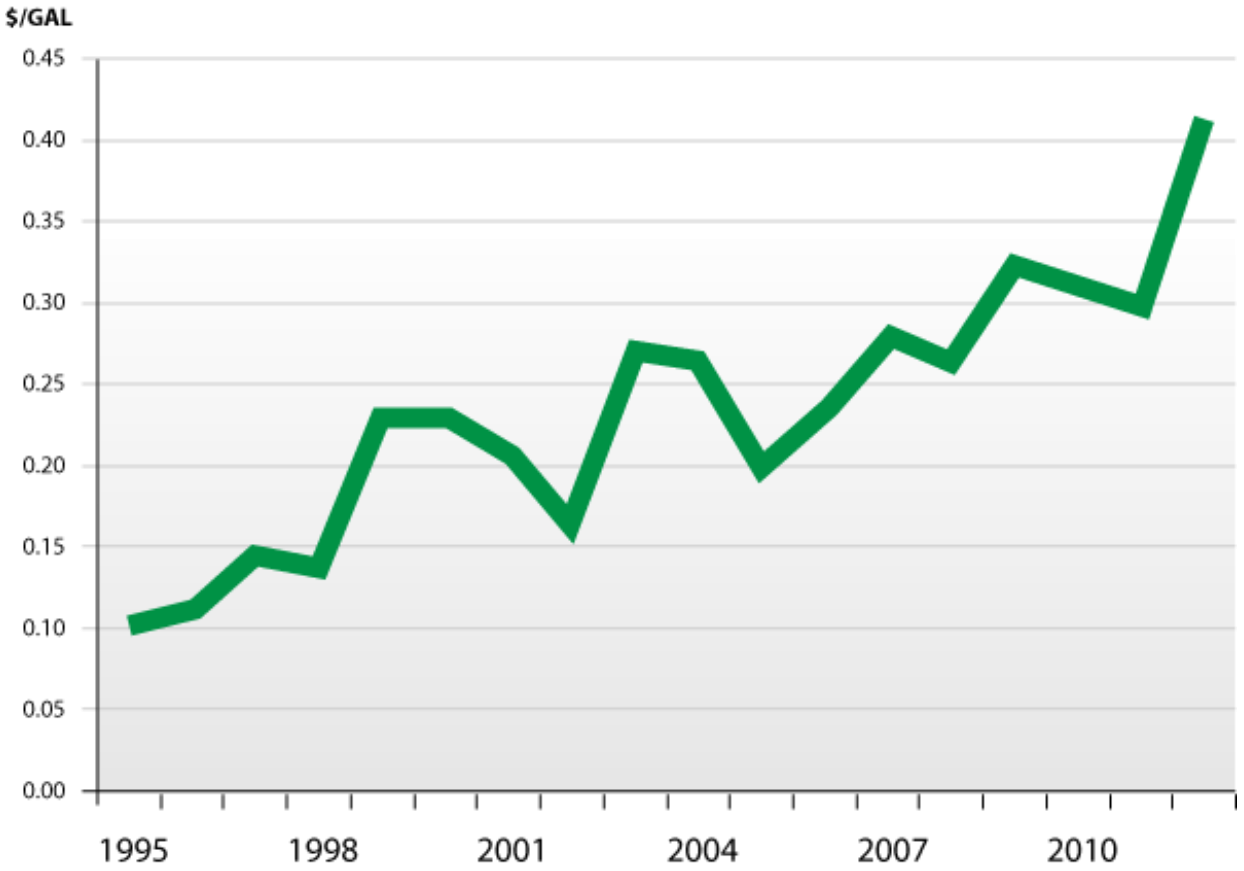


Days per year ozone levels exceeded 0.7 parts per million
Source: California Air Resource Board

CALIFORNIA PAYS A PREMIUM FOR CLEANER GASOLINE

TESORO

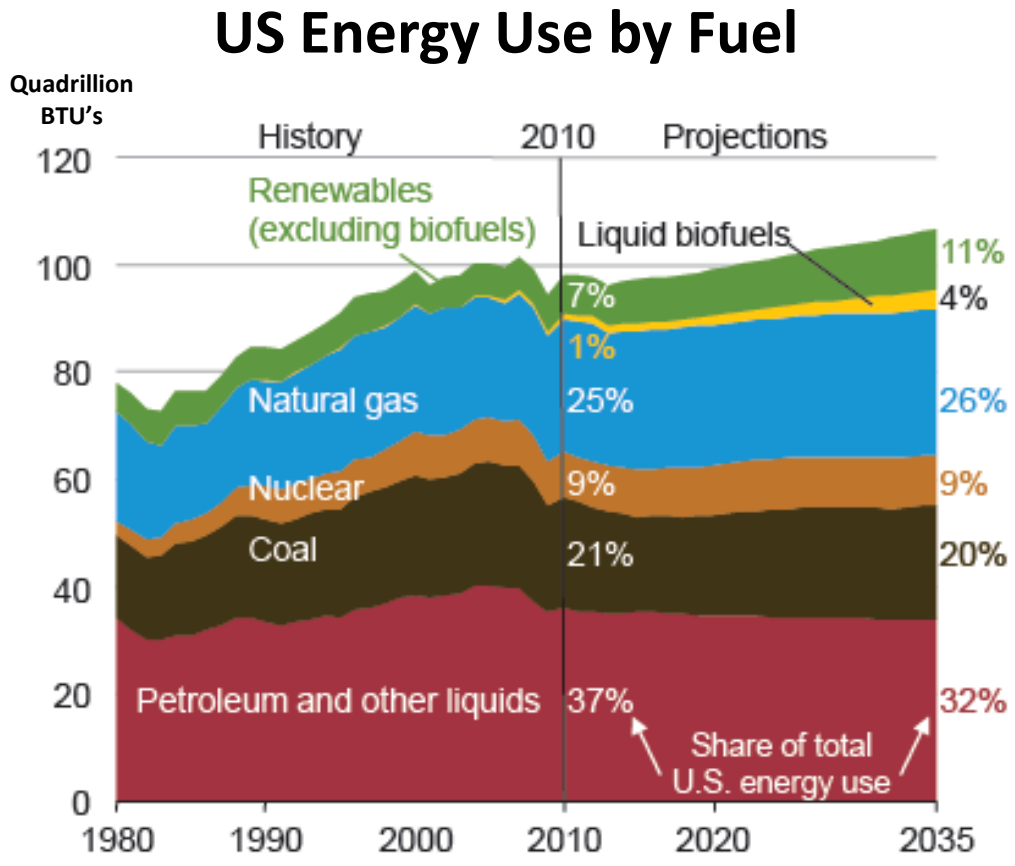
CA Regular over US Regular Average



US EIA

This progress has not come free to the California consumer

US ENERGY DEMAND

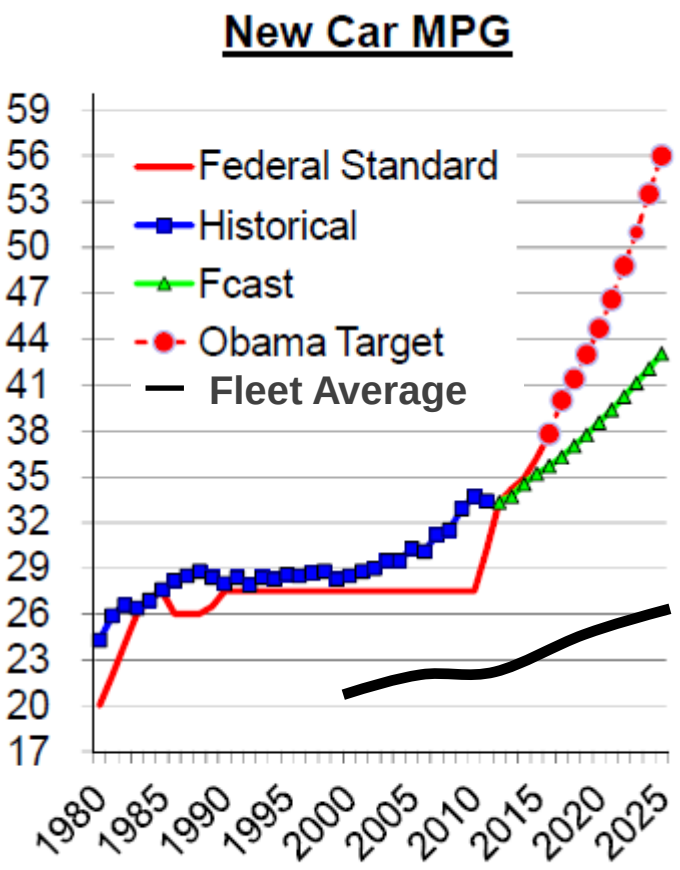


US EIA's 2012 Energy Outlook

- Petroleum products and natural gas remain the primary energy source through 2035
- Renewables and bio-fuels grow to 15% during the period

The growing population and expanding economy increase energy demand for all fuels over the long term

NEW VEHICLE EFFICIENCY

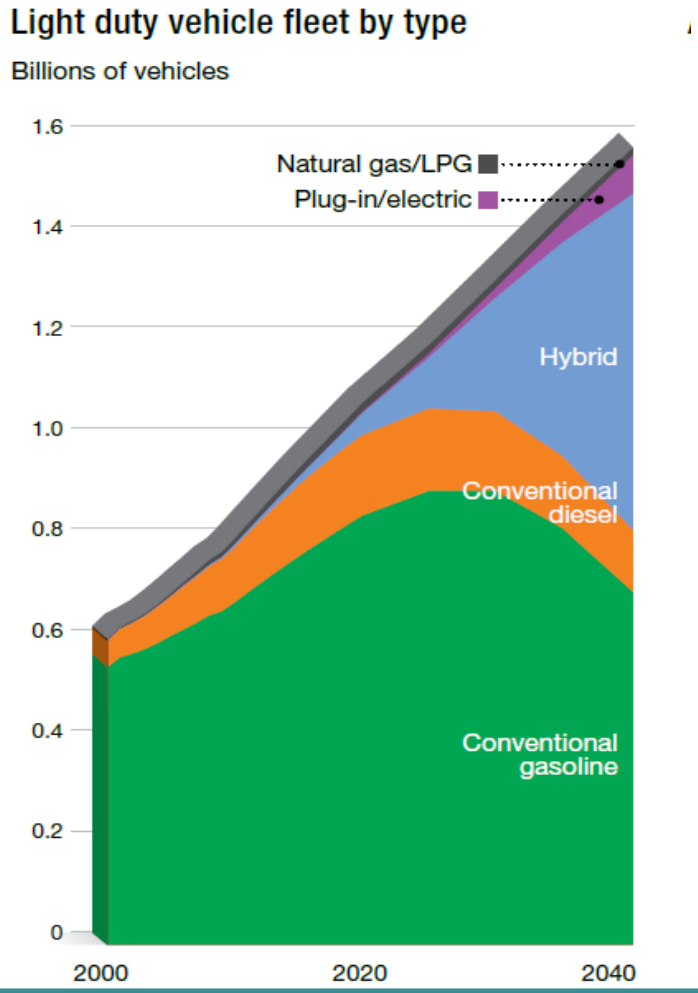


- White House recently established new vehicle MPG standards of 54 MPG by 2025
- Automotive industry does not expect to achieve, but expects substantial progress
- Fleet average is well below new vehicle average

New car mileage performance is expected to lag aggressive regulations

Source: PIRA Energy Group, September 2012

GLOBAL PASSENGER VEHICLE GROWTH



- Hybrid vehicles become more prominent in latter decades
  - Hybrid vehicles typically are gasoline vehicles
- Dieselization grows but remains less than 15% of fleet
- Electric and natural gas power vehicles remain minor penetration

Conventional gasoline remains the dominate transportation fuel
Gasoline based hybrids offset conventional gasoline vehicles

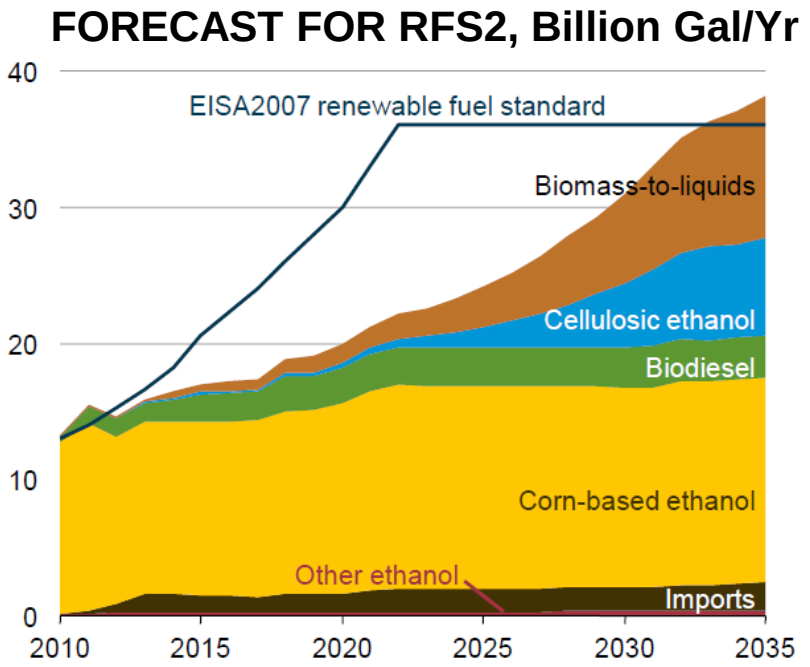
Source: Exxon 2012 Energy Outlook

REGULATORY PRESSURE ON CONVENTIONAL FUEL

TESORO

Federal Regulations

- Renewable Fuels Standard (RFS2)
  - Requires 36 billion gallons by 2022
  - Food versus fuel issue
- Tier 3 Gasoline Specification
- Raising ethanol blend limits to 15%



California Regulations

- Low Carbon Fuel Standards
  - Requires 10% reduction in Carbon Intensity of gasoline and diesel by 2020
  - Required technology is not commercially available
  - Will require significant volumes of Brazilian ethanol being swapped with US corn based ethanol to supply California requirements next year
  - LCFS is infeasible in 2014/2015 timeframe

EIA Projections recognize RFS2 supply lagging requirements

SUMMARY

- California has the cleanest fuels in the world
- Population and economic growth will drive increasing demand for transportation fuels in the US
- Vehicles will become more efficient and will be fueled from a variety of sources
- Fuel regulations will continue to change
  - This is best accomplished in a collaborative way

Conventional gasoline remains the dominant transportation fuel in US
Petroleum will continue to be a significant source of energy for the foreseeable future