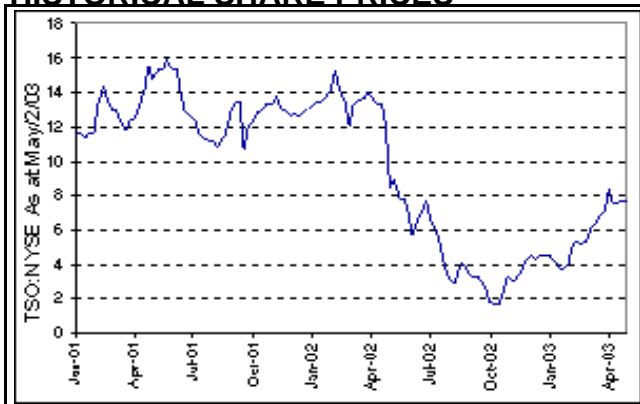


THE COMPANY

Tesoro Petroleum is one of the largest independent refiners and marketers of petroleum products in the western U.S. It operates 5 refineries with a combined crude capacity of 390,000 bbl/d. Its business includes 675 branded retail stations (under Tesoro, Mirastar, and Amoco). In addition to Tesoro's core business, it operates a Marine Services Business which provides fuel and marine logistics services along the Texas and Louisiana Gulf Coast.

FINANCIAL DATA

	2000	2001	2002e
Earnings per Share (\$)	1.74	2.10	2.00
Price to Earnings (times)	7.5	6.2	6.5
Dividend (\$)	0.00	0.00	0.00
Dividend Yield (%)	0.00	0.00	0.00
Book Value (\$)	16.39	18.15	18.00
Price to Book (times)	0.79	0.72	0.72

HISTORICAL SHARE PRICES

WHY ABC FUNDS BOUGHT TESORO

The refinery industry has been battling depressed refining margins over the last few quarters. But there is some optimism for the U.S. refining market. As the economy improves we expect better fundamentals into the second quarter. Tesoro has been able to create a company through acquisitions and growth that is well positioned to benefit from this emerging trend.

Our confidence in Tesoro stems from its proven ability to grow its earnings over the past six years through its existing asset base and opportunistic acquisitions. With the refinery industry going through a trend of consolidation, Tesoro has been a large beneficiary. In fact, Tesoro has been able to purchase a number of strong assets over the past year. The company acquired two oil refineries, 43 gas stations and a pipeline system from BP in the second half of 2001. The company expects the refinery assets alone to generate \$0.65 earnings per share annually.

Most recently, Tesoro entered into an agreement to purchase the Golden Eagle refinery and 70 gasoline stations in California. Due to the large merger of Valero Energy and Ultramar Diamond Shamrock, antitrust regulation required the sale of these assets. This proved to be an unbelievable opportunity for Tesoro as the barriers to entry make it difficult to enter into this premium market. Actually, it is unlikely that this asset would have been sold under normal circumstances. The \$1.075 billion purchase should close in April and will be financed through debt and equity. The newly acquired refinery will be included as a part of operations in the second quarter of 2002. It is expected to be accretive to earnings, increase throughput and enhance the company's long-term financial position.

Although the long-term benefits of Tesoro's recent acquisitions are evident, as a result, the company's balance sheet will become one of the most highly leveraged in the sector. Its current debt to capital ratio is approximately 59% and with about \$750 million added to this for its newest acquisition it will be significantly higher in 2002. Although, there is comfort in the fact that historically Tesoro has been aggressive in paying down its debt in order to improve its balance sheet. In 1998 its debt to total capital ratio was 49% and Tesoro whittled it down to 32% by 2000. This was achieved through asset sales and free cash flow. Currently, Tesoro is aggressively searching for a buyer of its Marine Services business which is non-core. It could possibly fetch between \$75-100 million. Tesoro also acquired a pipeline from BP for \$90 million but it could potentially be worth more.

In spite of the fact that the balance sheet is highly leveraged we feel that this is a fundamentally undervalued company. In February Tesoro issued equity at \$11.25, well below its book value of \$18.10. In previous months it had been trading much higher, as high as \$15. It also trades at a price to earnings multiple lower than its peers but we expect this to change with the integration of its acquisitions.

Going forward we see ample opportunity for growth. Not only will the Golden Eagle refinery purchase be accretive to earnings, we will also begin to see the benefits in the first quarter of 2002 of the start-up of its heavy oil upgrading project at the Anacortes, W.A. refinery. It is estimated that it could add \$0.35 per share in operating profit in 2002.

Tesoro also runs approximately 675 retail locations. Although this is small relative to the company's refining business it will continue to grow. In 2000, Tesoro entered into an exclusive agreement with Wal-Mart to build retail stations on location in 17

western states. This agreement offers significant potential for growth under the Mirastar brand, which was created exclusively for Wal-Mart. With a goal of 110 stores by the end of 2002, the company expects to add 80 to 90 sites per year over the next 2 years. As of the end of 2001 there were 55 Mirastar sites with 4 under construction. This is an ingenious plan to expand retail sites, as marketing is minimal utilizing the brand recognition of Wal-Mart. Murphy Oil which operates over 300 stations on Wal-Mart property has done very well under a similar agreement. It is also interesting to note that nontraditional retailers such as Wal-Mart and Costco have grabbed nearly 3% of the gasoline market and that share is expected to grow to 5% next year and to 15% by 2005.

Evidently, Tesoro is a story fuelled by potential growth. The company has set a new goal of growing earnings by 10% annually in a mid-cycle environment. Tesoro is of particular interest to us, as value investors, as the possibility of it turning into a growth stock from a value play is strong. This is a trend we have seen with many of our Value Favourites. We believe that Tesoro will have to prove the earning power of its new assets and projects to investors over the next year. We believe the integration of new acquisitions, debt reduction and increased earnings will all support a higher stock price in the future.

ABC Funds
March 15, 2002

UPDATES

Tesoro Petroleum has been under pressure since its disappointing first quarter earnings release. Weak margins, scheduled downtime and integration costs associated with the purchase of Golden Eagle were blamed. In response to investor's concerns regarding the Company's debt load, management clearly and decisively articulated a \$500 million debt reduction program that is focused on several key strategic initiatives. Management expects to reduce working capital by \$50 million and operating costs by \$10 million by the end of 2002. The Company also plans to divest several non-core assets, including the Marine Services operations, and reduce capital expenditures. Finally, the Company expects to achieve \$10 million in synergies from the Golden Eagle acquisition by yearend and an additional \$25 million in 2003.

Results for the second quarter of 2002 were recently released on August 1. Tesoro reported a net loss of \$0.28 per share, including acquisition-related pretax charges of \$0.06 per share. More importantly, both industry "crack spreads" and gross margins improved from the first quarter of 2002. As expected, the Company was in compliance with its bank covenants, ending the quarter with \$43 million in cash and repaying \$15 million of debt. Investors must wait patiently for management to deliver on its promises before the stock can rebound from these extremely depressed price levels.

ABC Funds
August 2, 2002

On November 7th Tesoro reported that it lost \$0.24 a share in the third quarter compared to \$0.79 a share profit in the same quarter last year. Lower year over year earnings reflect lower refining margins from a year ago. Tesoro's consolidated realized refining margin was \$5.60/bbl, or 26% below last year. Despite the poor quarter, margins have improved since mid October. This fact has not escaped investors and as a result, Tesoro's share price has rallied significantly.

As part of the amended credit agreement, Tesoro has committed to asset sales of approximately \$175 million by the end of the year. Tesoro and Williams Energy Partners are currently in discussions with the Federal Trade Commission regarding approval of the sale of the Company's Northern Great Plains Product System for \$110 million in cash. Under the terms of the agreement, Tesoro has the right to enter into discussions with other potential buyers and complete an alternate transaction under more favourable terms. In addition, on November 1, 2002 the Company announced the sale of 70 Northern California retail stations for \$67 million in cash, including working capital of \$5 million. These divestitures will ensure that Tesoro complies with its amended bank covenants.

One of the best indicators of the profitability of refiners is the "crack spread", the difference between the cost of crude oil and the selling price of the refined products, typically gasoline and heating oil. The crack spread had fallen from the middle of 2001 and bottomed in August of 2002. Margins have now stabilized, as crude oil costs have declined and gasoline and heating oil prices recovered. Because of the Company's high degree of operating and financial leverage, should this trend continue the market could well be surprised by Tesoro's earnings growth in 2003 and beyond.

ABC Funds
November 15, 2002

UPDATES (cont'd)

Tesoro shares have rallied significantly since our last update in November with management announcing that it had reached its stated goal of selling \$200 million in assets by the end of 2002. Also, refining margins in the West Coast have improved considerably due to higher gasoline prices in California and a colder than usual winter in the Southwest. In December, Tesoro sold its Northern Great Plains Product System to KANEB Pipe Line Partners for \$100 million and later announced it had reached an agreement to sell and lease back 30 of the company's retail outlets in Alaska for \$41 million. Tesoro had already raised \$67 million in November with the sale of 70 of its service stations located in Northern California.

Less than six months ago refining margins were at their lowest levels in five years and debt had reached an unmanageable level at Tesoro. The company was forced to amend its credit agreement, which required management to sell some of the company's assets and limit its capital expenditures. As a result, Tesoro shares decreased to \$1.24 and it appeared as though Tesoro was headed for bankruptcy. Since then however, management has delivered on its promise to rejuvenate the company. In addition to the sale of \$200 million in assets, Tesoro has reduced its term debt by over \$140 million, cut capital expenditures by \$70 million and expenses by \$24 million. These events have not gone unnoticed by investors since Tesoro shares have risen to over \$7 in the meantime. If refining margins remain firm and if management continues to make debt reduction a main priority, we believe Tesoro shares have the potential for further appreciation.

ABC Funds

March 28, 2003

The key to profitability for Tesoro is its refining margin or what is known as the "crack spread". The spread is the difference between the cost of crude oil and the selling price of the refined product, mainly gasoline and heating oil. The higher the crack spread the higher the likelihood of earning money. The opposite is also true when crack spreads are low. When this occurs, as it did last summer when the crack spread reached a five-year low, earning money can be very difficult. This was particularly true for Tesoro due to the fixed cost nature of its business. The result is an erratically profitable business and even more so, a very erratic stock price.

After careful consideration, we became concerned about the current refining margin environment as well as Tesoro's very high debt level. Tesoro's debt, recently rated BB by Standard and Poor, now stands at almost four times its market capitalization. With such high leverage, even small changes in the crack spread can lead to large fluctuations in Tesoro's earnings. This high sensitivity to the crack spread has led to a wide disparity in opinion by industry experts as to the net asset value of Tesoro's stock.

For most of 2003, refining margins have recovered due to unusually cold temperatures, which increased demand for heating oil in December-February, and a sharp reduction in net imports owing to the Venezuelan oil workers' strike. In addition, West Coast margins have been particularly strong due to maintenance-related plant downtime. We believe, however, that the recovery in refined margins may be short lived. Temperatures are starting to warm up, refinery maintenance work is ending and refining operations in Venezuela are returning to normal.

Due to these concerns we have sold our shares in Tesoro Petroleum. Despite a nearly six-fold increase in the share price from its low of \$1.24 in August, we sold at nearly \$3 below our cost. In retrospect, we may have overestimated management's ability to pay back its debt after the Golden Eagle purchase last year. In fact, we now believe management probably overpaid for those assets. Although we have taken a loss on this particular investment, we prefer to be prudent. Tesoro has now evolved into a high risk, high reward situation. Our preference now is to use the proceeds to purchase a company with less financial risk and less exposure to an exceedingly unpredictable commodity spread.

ABC Funds

May 2, 2003