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PRESENTATION

Sam Ramraj *- Tesoro Corporation - VP IR*

Good morning, everyone. I am Sam Ramraj, and along with my leadership team, we are delighted to be here and we welcome you to Tesoro Corporation's analyst and investor day.

I would like to remind you to turn your cell phones off or at least put them on a silent mode. Keep in mind in case of an emergency there are two emergency exits here, one to the front and one to the back of the room, so take a moment to know where the exits are. In case of evacuation, there will be a security officer on the floor who will give us directions on where to go and how to proceed.

For those of you listening to our webcast, the materials that we will be using today can be found on Tesoro and Tesoro Logistics websites.

Please note that management comments today will include forward-looking statements. Therefore, I encourage you to read the Safe Harbor statements on the slide. At the end of the presentation, we will have a question-and-answer session. Please wait until we bring you the microphone to ask a question to ensure it is heard on the webcast.

And with that, I'm pleased to introduce our Chairman and CEO, Greg Goff.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Good morning, everyone, and thank you for taking the time to come here today. I think this is my sixth investor and analyst meeting, and I have to be quite honest with you. I'm probably as excited today as I was six years ago.

We have some great things to talk about today and we have a fantastic leadership team that's going to be able to share our story, and then we are going to open it up for questions at the end of the session here. So thank you for coming and I know we look forward to your probing questions.

What I would like to do is start and introduce the leadership team with me here today and I would like to just say a couple things. I think one of the things that is good about our leadership team is that we work together extremely well. We are a very effective group of people, highly committed to really doing great things, and I think you'll see that as they talk today.

So the first person that I would like to introduce is Keith Casey. Keith is our Executive Vice President of Operations, so he runs refining, marketing, logistics, our major projects group, and today Keith is going to share with you how we are driving refining excellence in our Company and then also talk about some of the major strategic investments that we are working on over the next couple of years.

Phil Anderson will follow Keith. Phil is the President of Tesoro Logistics and Phil is going to share with you our story about the logistics company, one, how it fits into our integrated business model and, two, our plans and intentions to continue to grow the logistics business.

CJ Warner will follow Keith. CJ is our Executive Vice President of Strategy and Business Development, and CJ is going to talk about how we see growing the marketing business to create additional value for the Company. We spend a lot of time looking at the marketing business. We have a very good view on the opportunities that we see available and CJ is going to preview that with you today that really fits, once again, into our integrated business model.

And finally, Steven Sterin, the CFO of the Company, Steven is going to come up and share with you our financial plans. He is going to give you some look-backs on what we have been trying to create, and then also go in and share with you our projections of what we plan to do going forward. And then, we will open it up for questions and be glad, myself and everyone else, to entertain the questions.

We are also proud today to have four members of our Board of Directors here, and at least in my time with the Company, the Board of Tesoro has really been instrumental in helping in the formulation of a strategy, our execution of the business, and the general oversight of the Company, and they have been incredibly supportive of the management of the Company to help us in the journey that we have been on for the last few years. And I'd like to just briefly introduce each one of those Board members here today.

The first person is Rodney Chase. Second is Bob Goldman. The third person is Jim Nokes, and Mary Pat McCarthy. We're really appreciative of them taking the time to come today.

So let's get started. When we look at the Company from how we are positioned in the marketplace, we see four significant things that stand out for the Company. First is our focus on driving improvements in the business over time. We believe we have developed a very good track record of driving those improvements and creating sustainable earnings growth.

And one of the things that is important to us is that we look at that on a margin-neutral basis, so we are not driven by crack spreads. And even though crack spreads in the West Coast have been extremely high this year, that's not what drives us. What drives us is how we create improvements in the business by our ideas, our execution of those ideas to grow the earnings of the Company, and we're going to share that with you today. Matter of fact, each of the key leaders will share that with you today.

The second thing is about our culture. And our culture is one where we step up to focus on how we execute the business to deliver exceptional results all of the time, and I'm going to talk to you just a minute because we think that's extremely important about what type of company we are and what it allows us to be able to drive improvements in the business by taking ideas and executing those ideas.

The third is about our portfolio. If you looked at the portfolio of the Company back in 2010, where it is today, and where Steven will talk to you about, by 2018 we are significantly reshaping the portfolio of the Company. In 2010, it was 20% marketing, 80% refining. By 2018, we hope to get to be 45% refining, 30% logistics, and 25% marketing, and from an intermediate standpoint -- I will share with you that in a minute, we are on our way to getting there.

And then, finally, we pride ourselves in how we use the cash that the Company generates and how we can effectively allocate capital to grow the business, return cash to shareholders, and do that very, very consistently.

Back in 2010, we developed these strategic priorities for the business. To me, they are the roadmap. They guide all of the things that we do. If you take these strategic priorities and you listen to what we talk about today, you can see that they are foundational to what we are trying to do as a Company. I am not going to go over all of them, but they are truly part of what keeps us focused as a Company and they underpin the strategic direction that we pursue as we go forward with the Company.

I have always talked about how important the value chain is to Tesoro. We operate this integrated value chain from feedstock to how we go to the market, and this picture shows in the simple way what that is all about. But we believe the success for us is in how well we can execute all the way along that value chain.

As a matter of fact, we are working to develop a core competency in value chain optimization, which we believe has the potential to enhance the contribution to the business probably somewhere in the order of magnitude of 20% to 25%. Now some of that we'd get today, but all of the decisions that are made in how we buy crude up in the Bakken to how we go to the market in Los Angeles not only both tactically, but strategically, allow us to really capture value along that integrated value chain, and this is our business model. This is what allows us to drive the profitability of the business.

And you'll hear today different people talk about different parts. Keith is going to talk about refining. Phil is going to talk about logistics. CJ is going to talk about marketing, but what is important is how we integrate across that value chain to really add additional contributions to the Company.

I had mentioned earlier I wanted to talk briefly about our culture because at the heart of what we do is is really how we work. And I mentioned our strategic priorities are our roadmap, but our culture is the compass for the Company and we are very performance oriented. We are a performance-based culture. We set ambitious plans and then people come together and work to drive those improvements in there.

Our compensation systems are designed to reward and recognize both the Company and people for making good things happen, and it is really core to us to be successful because our business requires superior execution. To really execute the business well, we have to be firing on all cylinders all of the time, and that's what I believe allows us to drive what we call business improvements across the whole value chain is being able to have a strong culture in the Company.

Back in 2013 when we looked at the Company, we felt like we were very focused on creating value, but we felt like we needed to take play a bigger game, and that game to us was looking at all of the key stakeholders that we impact in how we do business. And we are very much a principles-based organization. We establish principles and we make decisions and take actions based upon those principles, but we believed back in 2013 we had progressed enough with the way we wanted to move the Company that we could start to look at the impact that we had on other key stakeholders, and we call it shared value.

Our view is that it is possible to not only create value for the owners of the Company, a lot of you in this room, but also the communities where we operate, employees in the company, how we interact with the government, which is our biggest challenge in executing our business. So we are very focused on looking at value creation from a broader perspective than just shareholder value creation because it provides us, in some cases, like this slide says, our license to operate.

And I think what we will show today when Keith is up talking about some of the strategic projects we are doing, so you can look at the economics and the strategic implication of those projects, but also what will show up is how it impacts the communities, whether it be by reducing emissions or, in some cases, having a very significant economic impact in the communities. But for us, it is important to take a broader look at the Company and look at the impact on these key stakeholder groups.

Just briefly, the business has changed a lot over the last five years. We're not going to talk a lot about that today, but we are going to talk about where we want to go over the next few years, but just a few key things here. The geographic area where we operate is ideally suited for us to be an integrated value chain, the nature of the markets and how we can go to market, and that fits our business model like a glove.

And you can see over time we have made lots of progress in executing that integrated business chain, whether it be through enhancing the profitability of the Company, growing our integration and marketing, and CJ is going to talk about some significant steps that we plan to take in the marketing business in the next few years to further strengthen our position there in the market, but we have made very, very good progress in the Company.

And if you look at that transformation, I mentioned earlier that back in 2010 we were at this 80%, 20% split. We want to get to where we are 45% refining, 30% logistics, and 20% marketing from a contribution from EBITDA standpoint. This slide is like that intermediate step here back in 2015. 2015 will be an exceptional year for Tesoro. There is no question about it. We will have -- in many, many things that we measure, we will have exceptional results.

But if you look at where the portfolio is today, you can see that we're still 65% refining, 20% in marketing, and 15% in logistics, so we're reshaping that portfolio, and the things that we're going to talk about today will help you understand between now and by 2018 how we expect to get to the portfolio there, and Steven will highlight that in his presentation.

I'm going to talk briefly about the market, then I really want to share with you what we are trying to do in 2016, and then a little bit into 2017 and 2018. So we see a market environment in 2016 through 2018 from the Tesoro index standpoint that is different than 2015. We believe 2015 was somewhat of an exceptional year, particularly in California, and we do not see that continuing. So we see a step down.

And how we look at it is we go back and we reference 2014, so you can see the Tesoro index in 2014 was about $11. So we see about $1.50 to $2 improvement across our system in the Tesoro index and that's primarily driven by favorable fundamentals for the business. We see positive demand. We see the exports still being able to leave the United States, even on the west coast of the United States, and that translates into higher refining utilization, which is one of the key drivers.

Therefore, we see a gradual improvement in our index across our system for next year. But it is quite different than what we have experienced this year.

From a marketing standpoint, similar type of outlook. So we see 2015 has been an exceptional year in marketing for our Company. We see a drop-off in margins a little bit, so you can see that we have a range of around $0.11 to $0.14 a gallon.

You can look back historically, so if you reference 2014, you can see we see margins in that area to slightly getting better, and what we talk about today is the basis for how we look at the Company going forward.

So briefly about PADD V and the west coast of the United States, everyone knows we have a very substantial position there. It is an important part of the Company. We see the overall fundamentals, market fundamentals, on the west coast, we see them positively. We see a continuation of a multi-year improvement in the general economy on the west coast, which for us is translated into higher demand. It is translated into more vehicle miles traveled.

And so as we look out into 2016 and then a little bit beyond that, we see a very favorable market environment on the west coast of the United States. But it is different than what we saw this year because we don't see some of the incidents that have happened in 2015 repeating themselves.

The Mid-Continent, where with our Salt Lake City and Mandan refineries we would see from a very positive standpoint, those two refineries, as Keith will share with you, how they compare in the industry are exceptional assets that perform extremely well. So, we have a very positive outlook for those refineries in what we refer to as the Mid-Continent area.

From a crude standpoint, where -- we don't see a lot of upside in crude oil prices in 2016. I'm not going to get into all the fundamentals. Everyone can have their own views on that. But we see prices generally like they were this year. I think so far they have averaged maybe $50 a barrel for Brent crude, and we see it there or slightly higher, but we do not project in our -- the way we plan to run the business a substantial improvement in crude oil prices in the short term, particularly in 2016.

And we see differentials relatively comparable to what we have experienced this year, some a little bit different, but in general we don't see dramatic changes that are going to impact our profitability based upon crude prices or on crude differentials.

So in 2015, as I mentioned earlier, we have had an exceptionally good year. It didn't get off to that type of a start. 2015 was a pretty bumpy start for us, but we have picked up a lot of momentum as the year went on, and what's important to us is last year at this time we stood up here and we committed that we would deliver somewhere between the $550 million to $670 million of improvements, and as we sit here today, our projection is that we will exceed that range. If you take the midpoint of that range, we will come in at about 15% above it or right around $700 million of improvement.

So I think it gets back to our culture, about our ability to drive improvements. And maybe one thing that is worth saying is that we have a system within the Company, so we -- not only do we train everyone to drive improvements in the business so it can be a part of our culture, we also track every individual improvements that we have. We validate everything that is done and combine them here to show you what we're able to deliver in the Company.

So you can see we have had strong execution. It has been an outstanding year that we will be able to deliver that $700 million that we project by the end of the year, and it really provides the foundation as we look forward.

So for me, this is the most important thing that I can share with you today, so I am going to take a minute here and just hit all of these key points because once I have done sharing that, then between Keith, Phil, CJ, and Steven, they will build upon this.

So the first thing is next year we expect to deliver between $900 million to $1.1 billion of growth in earnings based upon our earnings -- our margin forecast for 2016, not the 2015 forecast. So if you look at the things we're going to do, we see that improvement in our earnings of between $900 million and $1.1 billion, and it is comprised of two pieces, which I will show in just a minute, but it's important to lay these out.

The first piece is $400 million to $500 million of our improvements in the business in many facets of what we do that we have been -- that we work on every single day. That's one piece of that.

The second piece of that is that when you look at how we operated this year, as everyone knows we were significantly impacted in the first part of this year by a labor disruption that would -- that impacted our refinery utilization, and then some of the heavy maintenance work and some projects that we executed also got into our maintenance work, so we see $500 million to $600 million of upside based upon how we will run next year, and Keith will share exactly how we're going to be able to deliver that.

So the first thing is we see a pretty significant opportunity for us to drive earnings growth in 2016.

The second thing is we laid out a target to grow our logistics business to $1 billion by 2017. Everything that we wanted to achieve in 2015, we have been able to do. Phil is going to talk to you about this more, but even in a very difficult oil and gas price environment, we have clear line of sight to that $1 billion, and so we are on target to drive that $1 billion in logistics growth by 2017.

Probably the most interesting and exciting part, which is a big change for us, is the opportunities that we see with marketing, and CJ is going to share that with you. But our plans in our marketing business are to be able to get the EBITDA contribution from marketing to over $1 billion by

2018, and that comes in two pieces -- what we do with the current business we have and the opportunities that we want to be able to go capture. And CJ is going to go into detail and share that with you when she is up talking.

So when you go back and you reflect on my comment about the composition of our portfolio between refining, marketing, and logistics, these plans and these actions and our ability to deliver them is what allows us to reshape that portfolio and how the earnings of the Company come about.

And then, finally, during Keith's presentation, we have four major projects that probably most of you are very familiar with, some we've been working on, like Vancouver Energy, for a long, long time. But we have those projects in place and we're going to talk about those projects.

What is important about those is with our free cash flow, we are able to allocate free cash flow to those projects over the next few years, and when we are done by 2018 they deliver around $350 million of annualized EBITDA, but they are very strategic projects. So not only are they highly attractive from a return standpoint, what they do for our business has significant strategic implications that are very important.

For 2016, we have a very clear plan to get to the numbers. Each person will share them with you. I have highlighted this. If you look at what we've done from 2011 and what we will do by the end of 2015, we will have driven about $1.8 billion improvements in the business. It is foundational to how we run the Company, and we're on that journey to continue to do that, as you can see.

So next year, excluding the improvements that we see by just how we operate, the $500 million to $600 million by not having the impact of the labor disruption and getting higher utilization to where we think we will be, then we will deliver another $400 million to $500 million of improvements.

And beyond 2016, we have a view that we will be able to continue to do additional improvements. As you can see, somewhere between $750 million to $1 billion over that two-year period of time. Interestingly, the contributions from the major projects we are doing only partially kick in during 2017, so the bigger impact is once you get out into 2018, but we will talk a little bit about this, but we are more focused on what we're doing next year.

So with that, I think as we go through today you will be able to see with each of the key leaders of the Company talk about what they're doing, it will be able to give you some confidence in these plans that we have talked about. So, Keith.

Keith Casey - *Tesoro Corporation - EVP Operations*

It's great to be with you here today. This is my third time with you to talk about the progress that we made. It is always the accountability, what did we accomplish last year, and there's that commitment going forward of what are we going to commit to and what are we going to accomplish going forward.

I'm like Greg. Each and every year, I'm more excited about the potential and the value creation that we are able to deliver through this business. So today, I am really going to share the story of how we are driving excellence within our refining system.

And as Greg said, for 2016 that is going to show up in the form of about $200 million of business improvement -- $200 million of earnings for business improvement, and then we are also going to deliver $500 million to $600 million of improvement year on year because of the increased utilization and capture because we're not going to have the labor disruption.

The other great thing that I get to talk to you about, as Greg mentioned, is the transformative projects that we've been working on for quite a while in our portfolio. I'm going to be able to share some progress updates because we have got some exciting news there.

Before I start and talk about refining, I really wanted to set some important context on, as Greg said, the way we differentially operate and think about operational execution. So these are corporate-wide environmental health and safety results, and as you can see from the data, we actually from a personal safety standpoint perform at best-in-class levels within the industry. And from a process safety standpoint, we actually perform in the top quartile, which is better than 50% to the industry, that top quartile of process safety performance.

And we continuously strive to reduce our emissions and our environmental footprint. And as Greg said, we believe this is core. This demonstrates our core values and our shared value to our employees and to our key stakeholders in how we do business. So as you think about all of refining, marketing, and logistics, even our central ops business, central functions, we're committed to creating that incident-free environment and continuous improvement in the way that we execute our business.

And in refining, we have a highly competitive refining business that has been purposely built to be incredibly flexible and durable to meet the market demands. And the essence of our operational execution really comes down to three things. We're in great markets. We have excellent advantage to advantaged crude oils and very strong product demand for our products.

We have great assets, again underpinned with that drive for reliability and utilization, that they are highly flexible, I think distinctively flexible. And our ability to meet the requirements of the market, either gasoline or diesel or all the products that we produce.

And finally, we have skilled and dedicated people that have a mindset of continuous improvement and driving than improvement through all phases of the business.

The exciting thing is for each one of those three things we have a very detailed and clear plan that we're going to extend those capabilities into the future.

When you think about our portfolio, with almost 740,000 barrels a day of capacity on the west coast, we have a very large and competitive position on the west coast -- four excellent refineries with just absolutely superb waterborne logistics connectivity, so not only for crude oil, advantaged crude oil access up and down the coast, but also the intermediates and blendstocks that we can move across the coast and, again, getting those products to the markets.

Within the Mid-Continent, and as Greg shared, we have two highly competitive refineries running 100% advantaged crude with excellent markets for product demand and highly integrated product channels.

We are very competitive and we seek to extend that competitiveness throughout our entire refinery system. And this is all enabled by superior logistics. Phil is going to talk to you a little bit about that in our next section.

So as Greg shared, our fundamental business model is of a highly integrated value chain, and when you think about the center of that value chain, it is the robust refining system. And that really provides the platform for not only the optimization of the refining system, but a lot of the logistics and marketing growth that you will hear about in the next sessions.

During a recent analyst visit to the west coast, we were asked the question, do you optimize by refinery or do optimize by region? And the answer appropriately by the refineries was yes. We optimize each of the refineries, then we optimize within the regions, and then we optimize the entire refining system.

And a great example of this, just to put a fine point, in 2015 we had very strong product demand in California, and we move about 50,000 barrels a day of intermediates and blendstocks across our system, and through our movements of octane to support that demand in southern California from the rest of our system, we made about $15 million to $20 million being able to supply that and optimizing from the entire system. So, just great examples of optimizations taking place each day.

So as I said, we have purposely built this flexibility into our asset base, and it is really the ability to swing production from gasoline to diesel or vice versa, depending on the market demand. And what you see on this chart, actually in the upper right, it looks like a pretty typical seasonal demand between gasoline and diesel. But if you actually interrogate what's occurring on a daily basis and a weekly basis when there is those product demands, there is much more acute changes that are taking -- taking place in the differentials.

And if you look at it, that volatility on average has been about $8 a barrel over the last five years; about 60% of the time, it has been for diesel, 40% for gasoline. So the average volatility, about $8 a barrel, and a maximum volatility of $60 a barrel.

And that's why we believe flexibility and agility are really the key for competitive advantage. Importantly, our swing capability, which we have driven this 10% capability of our production to swing, is incredibly agile. We can often execute that in less than one 12-hour operating shift to meet the market demands. And just a bit later, I am going to share with you how that is an important feature of our integration and compliance project.

When I talk to folks about the complexities of refinery, and Greg actually talked about the importance of reliability, I get pretty excited because we have got thousands of miles of pipe, hundreds and hundreds of pumps, and men and women in blues and coveralls that 24/7 are operating dynamic processes.

And thinking about that objective that we are trying to get all of that right 100% of the time, 100% of the time, the entire team is striving for that level of perfection. Well, we hold ourselves to the minimum standard of magna cum laude reliability results, which is really that 97% to 98% availability within our refining system. That is world class. When you look at what is world-class reliability, that is the number. And that's the standard that we hold ourselves to.

So when you think about that, it is kind of like going to college or grad school and never accepting less than 98% on an exam or a quiz. It is that level of excellence. And we believe that's really important because that allows us to run at high utilizations and high utilizations to supply the market demand.

As you look at these two charts that are there, those gold bars actually represent that $500 million to $600 million of improvements that we will drive in 2016. So that higher utilization, our ability to optimize and capture and deliver that from the marketplace, and that's where the improvements are coming through.

Sustaining that level of performance is obviously very important. We have been investing in our operations excellence management systems, which is, simply stated, our game plan for how do we operate, and it provides a consistency and a base for continuous improvement, so it gets better this shift and the next shift and well into the future.

Underpinning all of that reliability and availability is a very disciplined investment program. In turnaround spend, roughly $250 million to $300 million a year really assures our capability to produce products through the cycles of the units. And sustaining capital is actually executed with that shared value mind state. Greg mentioned playing the game a bit differently, a bigger game.

We really think about sustaining capital as our opportunity to improve reliability, decrease our lifecycle operating cost, and very importantly reduce our emissions footprint and improve our compliance performance. So like all of our objectives, this comes down to how do we execute, and a great example of how we execute, I think, occurred last year in our 2015 hydrocracker turnaround in Los Angeles.

The team got together and said, you know, we are going to raise the game. We're actually going to execute this turnaround in a flawless manner, and they did. They shut down a hydrocracker and major hydrogen processing units with zero flaring. That's incredibly rare in our industry, almost unheard of. They executed all of the turnaround without an injury and they restarted the units again with zero flaring. Very, very rare in our industry.

But that's not enough. They did that on schedule and under budget, and the really amazing thing is -- this is where this business improvement continues to carry through -- we had just installed a new line from logistics connecting the two refineries, called the [7179] line, and they were able to execute that major hydroprocessing conversion unit turnaround and maintain full crude throughput, which was to the benefit of about $50 million in being able to run that full throughput as we executed that.

So just a great example of how we are focusing on getting the maximum out of these investments that we are making by how we execute.

This Greg shared with you, this track record of delivering business improvements that we have within Tesoro, and it is really built on this foundation. 95% of our staff now is yellow belt trained with Lean Six Sigma tools, and we have got a growing army of green belts and black belts that are driving this performance improvement. Within refining alone, that is going to be $200 million a year of business improvements on an annual basis, and we believe that we will be able to, because of people's capabilities, continuously deliver that.

It shows up, as you can see in the pie chart on the left-hand side of the chart, in flexibility and yields and optimization. That is everything from optimizing gas oils around Martinez to the example I gave you earlier about octane. That's not just a waterborne example, though. We have actually optimized olefins from the Mid-Continent to the west coast to the tune of $2 million to $3 million this year as well, so really extending that flexibility advantage.

When you look at the distribution and cost management, I start thinking about our supply chain activities because we are really driving -- whether it is reductions in trucking costs, equipment rental costs, or leveraging our spend with major suppliers and contractors, that is coming through in the form of tens of millions of dollars in each of those categories.

When it comes to operating costs in general, as Greg said, very disciplined approach, and we really think about sustainable costs, so inflation in our business is about 3% to 4% annually and we are looking to do everything we can to offset that inflationary effect, and then also deliver improvements faster than our competition, and that's what we have committed to do by 2018 on a competitive basis is further reduce our operating expense by $150 million on a competitive basis.

Central to our high-performing culture is the desire to win, and unfortunately, it is not nearly as exciting as the college football championships, but we do have the Solomon Study in refining. Very well known, respected, very defensible study of everybody in our industry, not only on a national, worldwide basis. And the most recently published results showed our system improving in all areas of performance with a clear trajectory towards first quartile.

And very importantly, as Greg pointed out, our Mid-Continent refineries, both Salt Lake City and Mandan, are actually in the best-in-class net cash margin position within that study. So it is just exceptional performance and delivery by those refineries, and, again, the great thing is we have developed a multiyear plan to continue to drive towards that first quartile performance across all of our system in the future.

Pulling this all together is really strong EBITDA generation. In 2015, it is going to be approximately $2.5 billion of EBITDA generation in great markets, advantaged crude oil access, very strong product demand this year, and a purposely built portfolio that is very flexible in being able to commercially optimize across our value chain. And it is all driven by this high-performing culture, coming into work each and every day, each and every shift, driving those continuous improvements.

So as I reflect on the performance of the refining system, like Greg I get more excited each year as I'm here in thinking about delivering the value and the full potential of this business to the bottom line.

Now, as I told you, I also get to update you on some strategic investments, and we have talked about a few of these for the last bit, but really give you some news on the exciting progress that we are making on each of these.

And when we think about creating value, and I'm just going to step back a second, really share about creating value because these projects are much more than building process, units, or tanks. There is bigger things that we are trying to accomplish.

When you think about formalizing competitive advantage and fully integrating our value chain, that is really what the Los Angeles Integration and Compliance Project is about. And when we think about creating value, we are not just thinking about advantaged crude oils in front of our refineries, but we're thinking about how that supply to the west coast of advantaged crude oils can change the shape of the crude oil supply/demand dynamics for the west coast. And that's what we are trying to accomplish through Vancouver Energy.

And then when you think about the mixed xylenes project, so it is much more than building a xylenes extraction unit and an isomerization unit, but it's really our ability to take a competitive advantage in our position in a very unique way and enter a high-growth market within Asia for our product. So it is really, really exciting.

But no doubt, not unlike our southern California acquisition when we bought the refinery, the logistics, and the marketing business, these are not easy to permit or execute, right, but there is tremendous value in being able to accomplish this.

Greg showed you earlier in one of his charts that these new business investments contribute $50 million to $100 million of EBITDA beyond 2016. In fact, they actually contribute to an EBITDA run rate of about $350 million beyond 2018 or at the end of 2018, so a very significant contribution as we continue to grow our capabilities.

This is the Los Angeles Integration and Compliance Project, and, boy, it has been a pleasure. I have had the pleasure for the last three years of talking about all that we have accomplished through our acquisition since 2013. Whether it is the $500 million of synergies we have been able to deliver to the bottom line or the close to $1.8 billion of drop-downs to TLLP, this business is performing very, very well this year and it is going to contribute -- that region will contribute onwards of $2 billion of revenue to our 2015 results, just fantastic performance.

And when you think about it, we have been doing that with one arm tied behind our back. We have yet to formally connect the two refineries and update all the process units as one side. We have done it with one management team and we have done it through creativity and our logistics -- existing infrastructure, but that's what this project is really about is formally connecting these two assets, and we're going to modify 12 process units so that we get that flexibility, again 30,000 to 40,000 barrels a day of gas to distillate flexibility.

And then, we do two large pipelines, 45-inch bores going under two major transportation corridors, and I think all totaled it is something like 18 miles of pipe that we are putting in in these projects that will formally connect and unleash the full power of a full integrated site, and that's the exciting thing about this project.

And back to that earlier conversation about flexibility, and I think this is a really important point on the gasoline to distillate flexibility, we see that competitive advantage. We stress-test these economics in a high gasoline environment and a high distillate environment and they are incredibly durable in both environments, so we are not committing all to one product or the other; we are committing to maximum competitiveness through the way we design this configuration.

Vancouver Energy and really the crux of this project and strategic project is really taking advantage of the amazing infrastructure that exists already at the Port of Vancouver, the couple hundred million dollars that were spent in this port that has been in business for over 100 years to really advance the logistics infrastructure.

As you can see from the photo, the areas in aqua, Vancouver Energy is actually a pretty straightforward project. It is six tanks. It is a rail unloading barn and it is modifications to a wharf that already exists.

This project is going to impact the west coast crude dynamic. It is going to give Tesoro the ability to get more advantaged crudes in front of our facilities and it is a substantial logistics opportunity for us as a Company.

So, again, I will just briefly touch this. Looking at the economics, even in this narrow crude differential environment, very robust 40%-plus internal rate of return on this project.

We hit a major milestone this month. The draft environmental impact study was released by the Energy Facility Siting Evaluation Council. It is an extensive document, if you haven't ready yet. 850 pages, [3,500] pages plus or minus of appendices.

And we have begun the next phase, which will be the comment period, which wraps up about the end of January, and then we will get into the adjudicative phase, which is really a formal process to address any and all concerns prior to make a recommendation to the government. So, we feel very good about the progress we have made, feel good about that milestone, and we're entering the next phases, hopefully be able to wrap up this permitting process in 2016 and be in service in 2017 and deliver this advantage.

The Mixed xylenes Project is more than building a process unit, more than building some tanks, and I think the graphic shows that while we have this competitive advantage in our locations in the west coast and transportation to Asia, we also have a manufacturing cost advantage in the way that we're able to optimize our facilities to produce these mixed xylenes. So it is really taking advantage of both of those things and entering that growth market, the 5% to 7% per annum growth market of the xylenes within Asia.

There is multiple logistics and commercial strategies that actually evolved from this strategy that are very, very exciting when we look at the full potential. And again, regarding the economics, so we've stress-tested this. With the shift in flat crude price, with the compression of natural gas costs in Asia, as well as the demand cycle for mixed xylenes, that 5% to 7% growth, we have stress-tested all of those and have very durable economics on this project. So we're really excited about this. We are hoping to progress and be able to start up in mid-2018.

Then we transfer over to the isomerization and naphtha optimization, this would be a standard refinery project. You need to clean up your naphtha systems and be able to replace that octane to make the new Tier 3 gasoline requirements.

What's different about this is it is synergistic to mixed xylenes for us. That's the big story here. Not only does it help us produce more of mixed xylenes and synergistic with our [prod], but it also reduces our octane production costs on the west coast, which is really advantageous for us as we go forward. And that's why these two projects have been combined together and are actually progressing through the permit phase under the name of Clean Products Upgrade Project. So, it is Clean Products Upgrade Project.

So before I turn it over, I'd really like to reiterate that operational execution and how we think about our delivery. Whether it is in refining or logistics or marketing, it is that same focus, that focus about creating an incident injury-free workplace and that spirit of continuous improvement through all phases of our business.

And when you really think about not only the driving for refining excellence I just spoke about, but also these new business and strategic investments that we are looking at, just for a moment think about how each one of them is enabled, improved, or extended by logistics because it is really logistics that helps us create -- bring that value creation to the bottom line. Phil?

Phil Anderson - *Tesoro Corporation - President Tesoro Logistics GP, LLC*

We launched our logistics strategy at Tesoro. We are coming up on our fifth anniversary this spring with logistics. And it is really -- the strategy all along has been to develop an engine of growth within Tesoro and really build a great business and really have done that in three ways -- organic investments, drop-downs, and strategic acquisitions.

And that's the three themes I'm going to focus on today of how we have built this great business. We will talk about how we're positioned today, which is very strong, and about how we see this business growing over the next few years, which again, as Greg mentioned, despite a difficult market environment, we believe very strongly that we have got some really great opportunities to grow the business.

So there are some facets of our strategy that we think make us distinctive, and I will talk about these today. First, as I've said, we have built a very strong business already in nearly 4-1/2 years. We have got real execution capabilities within logistics. We are serving third-party customers in addition to Tesoro and we are driving a sustainable growth strategy around the business that really propels us into the future.

The other thing that is distinct in this commodity environment we live in right now is that we have got really great vibrant markets that we have insight into growth opportunities. We will talk a minute about some of the downstream business that Greg talked about. That really delivers us a significant amount of opportunities for us in the logistics space.

A couple years ago, we identified a goal to reach $1 billion of EBITDA within logistics, and we will talk about it today. We really have a pretty clear path to reach that number at this point in 2017 and we are really viewing that more as a milestone at this point in our journey as opposed to a destination, to continue to grow beyond that number.

And lastly, part of our strategy is to look at logistics as a platform for acquisitions, and we have been very effective at acquiring assets that really fit our strategy. We have got some great new examples we will talk about this morning. We will also talk about how we think about that in the future.

Let's look at our strategic footprint. As Greg mentioned about Tesoro, we are very well positioned in this market. We have an incredible refined products terminalling and pipeline network. That's the one in this low price environment that really helps drive volumes and growth for us, and that is turning on a lot of new opportunities.

Secondly, if you look at our Mid-Continent gathering business, with our Rockies natural gas focus and our Bakken crude oil business, we are well positioned in these now mature fields. With the combined commercial and execution capabilities now inside that business, we are able to deliver new projects despite the challenging market environment, and we will talk a little bit about those more today, but we also think there is incredible upside potential within those markets.

Let's step back and look at the 4-1/2 years that we have had this strategy. We have grown EBITDA within logistics by nearly 1,500% in 4-1/2 years and we have done that while investing and diversifying our business, and that has delivered very steady, high, consistent growth in distributions to the TLLP unitholders.

If you look at 2015 so far and where we are ending the year, we are covering our distribution to TLLP at a factor of 1.3 times, so the business is coming through this very difficult period in a position of strength and really setting us up for the future for that platform to continue to grow.

As Greg talked about, the enduring principles that drive Tesoro, these have really been our enduring principles of growth around TLLP since we started down this path. And it is what drives us every day and it is what continues to drive our thinking about the future. And that's -- it is really quite simple, but it is maintaining minimal commodity exposure. It's that culture of driving business improvement where we get the assets, we drive optimization value through the assets, we invest organically around the assets, and we are obviously very biased around optimization of organic growth because we think we get our best returns there.

And lastly, it is strategic growth, and we have done that really in two ways, and that is direct investments through TLLP, as well as supporting Tesoro in its strategic growth, and that continues to drive our thinking about the future in terms of how we will continue to build this business over time.

What underlies all of this and is very important right now is to understand that Tesoro, we really see Tesoro as the steward of this business. It supports the business and it really, as part of the integrated strategy that we pursue, this is key -- it's that key engine of growth that really supports that strategy, so we really focus on it very strongly.

All right, let's transition to looking forward. This summarizes our organic growth and drop-down plans for the next several years. I'm going to dive down into each segment over the next few slides, but I want to call out a couple takeaways from this.

First, in 2016 you will see that we are growing EBITDA by nearly 30% over 2015, and that is really based on projects that are largely complete at this point, beginning to deliver new EBITDA for us, as well as drop-downs that we will talk about in a minute, a couple of acquisitions that have recently been announced that are poised to be new additions to our drop-down plans for 2016.

Secondly, as I talked about our goal to reach $1 billion, you can see in 2017 with our plans that are in place right now we have got very clear insight into delivering that goal, and then you can see beyond that our intent to continue to grow the business.

So with that, I'm going to dig into each segment quickly and just talk about -- a little bit about how we see that growth unfolding. Starting with our gathering business, the first thing I would point out is that in 2015 we see that business generating $395 million to $400 million, a big increase over 2014, and if you go back a year ago, we had just announced the acquisition of our Rockies natural gas business, and I'm very proud to reflect that business is performing very well for us. Volumes are up nearly 10% in that business versus a year ago and our EBITDA performance is expected to be at the high end of the range that we told you last year.

And even in Bakken business, volumes are up 30% this year, so when you look at this segment and the difficult market environment, the strategies and plans and projects that we have had in place, we've very successfully executed, and that really sets us up for the next round of growth.

If you look at next year, in 2016 we plan to invest $250 million to $290 million in organic growth in this segment. In the Bakken, there is really two feature areas there. The first is that our pipeline, our High Plains Pipeline, is really very well positioned around the core of the Bakken where production and drilling continues to take place, and we have the opportunity to expand some key segments of that pipeline and really pick up crude oil that is in that market now, that it is much more efficient to get that crude on a pipeline as opposed to a truck. So, that's a really good project even in the current environment.

The second is to continue to expand our gathering infrastructure, and we recently announced a new project in that area that we will be executing next year, and I am proud to say that we continue to have discussions with producers up there as the gathering infrastructure largely lagged the development of the field by a couple of years and needs to continuously be built out just to catch up to the current level of production.

In the Rockies, we are seeing producers there benefit from technological advancements and dramatically improving their well productivity. When we look at the numbers that they are showing, it really shows that gas being produced amongst the more cost-efficient fields in the US, and so that is allowing producers to continue to drill in those areas.

We have announced two significant compression projects there and that is really supported by the producers and the drilling activity that continues to take place, and we continue to see volumes increasing on our systems, and from what we can tell right now, that continues to be our outlook for next year.

I'm going to transition to the terminalling and transportation segment of our business. And it is this segment is where we really see the impact of that vibrant growth in demand, both domestically in our western US market, as well as export demand through our marine facilities and our pipelines.

This year, we have an expanded portfolio of organic growth in this segment, and that's really driven by that demand. It is driven by some of the projects Keith was talking about. We also have a significant backlog of ideas that we are working through as part of Tesoro's overall integrated strategy that we think will continue to drive this portfolio over the next couple of years. Right now, our target is to grow this business by $100 million to $120 million of EBITDA through organic growth and optimization by 2018.

Our focus in 2016, our organic growth, is to spend about $150 million to $160 million, again those two main drivers. The demand-driven growth really shows up in our terminals where we have got the opportunity to expand capacity in our terminals. We have got demand to expand the Northwest product system that moves products from Salt Lake City up to the Pacific Northwest and we have got demand to add biofuel services amongst our west coast facilities.

The second key component of our growth portfolio here, as Keith talked about with the LA integration project, is the pipeline bundle is a project that will be undertaken at the TLLP level and is a significant benefit for us in terms of helping us drive our organic growth and delivering increased EBITDA through this segment.

So let me total up our organic outlook. Across the planned period, our intent is to spend about $1.5 billion on organic growth and the EBITDA from that is $235 million to $300 million of EBITDA. These projects fundamentally have great returns. In the gathering space, the projects are well supported by commitments. It is all the components of logistics growth with projects that are put together in a way that really drive our business in a secure way.

Let's transition and talk about drop-downs a little bit. We've divided up the portfolio into a couple different categories this year. The left side, the traditional way we have looked at it, we see $350 million to $500 million of earnings that can come down to TLLP over time. And that is really traditionally where we know everybody focuses, and those are great opportunities.

The other way to look at it is if you look at the new business opportunities, and a lot of this stems from the opportunities that Keith outlined, the major logistics components that are parts of those projects, or you looked at, say, the recent acquisitions that we have announced at Tesoro, the focus on driving new value and getting new value through drop-downs into the MLP is really the core of where we would really prefer to spend our time going forward.

The other takeaway from this is that drop-downs -- really, it is a continuously dynamic portfolio. That's how we look at it, it's how we think about it, and it is really core to our strategy to drive this opportunity set over time.

So let's step back, and again, we think about how we're distinctive. If you look back at 4-1/2 years and how we have grown our logistics business, it's this focus on new value, which has been the source of almost all of our growth.

Let me explain the chart. The blue bar reflects EBITDA and activities that were inside Tesoro when we IPO'd the business. The yellow bar reflects EBITDA from our organic growth, the optimization, and acquisitions that we've done since we IPO'd, and so you go back to the strategy of logistics as an engine of growth, an engine of driving new value, this really illustrates that. In circa 2015, only 15% of our EBITDA comes from those pre-existing assets. And it is really that thinking that drives us in the future.

Okay, so the last major category of growth, strategic acquisition. We want to talk for a minute about how we think about that. In 4-1/2 years, we have had three major acquisitions at logistics -- the Northwest Product System, the Carson Logistics assets, and the Rocky Mountain natural gas business. And all three of those acquisitions have performed very, very well in our portfolio.

And we remain focused on core assets as part of Tesoro's integrated strategy. But we're also very focused on assets that deliver third-party business for TLLP. Now with our full service capabilities, we are starting to expand our sites to some of the adjacent geographies as we see crude oil development in the Mid-Continent, especially Powder River Basin, DJ Basin. With our integrated approach, we believe that expands our opportunity set a little more.

So I am going to talk about a couple of new opportunities that we have recently announced. The first is Tesoro's acquisition, pending acquisition, of the Alaska marketing and logistics business. If you step back, last year CJ outlined a number of steps in our strategy to improve the business in Alaska, and we have taken those steps, and these assets really fit perfectly into Tesoro's overall strategy in terms of marketing and distribution of products throughout Alaska.

There happen to be some great logistics assets in there that integrate very, very well with our existing logistics footprint in Alaska. And that creates probably part of our first drop-down relatively early in 2016.

The second one I will talk about, and this slide isn't in the deck necessarily, is the acquisition announced yesterday of Great Northern Midstream. Tesoro is acquiring this Bakken crude oil gathering pipeline, storage, and rail loading business in North Dakota. Again, it fits Tesoro's integrated strategy. It allows us to become very, very efficient around moving advantaged crude to our west coast facilities. It integrates well with our existing footprint up there relative to TLLP and the High Plains Pipeline.

These assets move right through the core of the Bakken and really give us great access to some new areas of advantaged crude. The plan for next year is to restructure this business at Tesoro and really drop it down later in 2016 down to TLLP.

So let me wrap up. In 4-1/2 years, we've been showing you this same slide, and it really does inform and drive the way we think about the business. Our focus has been and continues to be an engine of growth, driving it through very simple business principles through the full support of Tesoro. Again, part of the integrated strategy of the Company focused on every day with everything we do.

That really sums up logistics, and I will turn it over to CJ.

CJ Warner - *Tesoro Corporation - EVP Strategy & Business Development*

And now onto marketing, so putting things into context, you have heard this morning from Keith about refining, the core element of our business, and how we continually improve the business, as well as to find significant growth opportunities regularly from this core element of Tesoro's integrated value chain.

And then you heard from Phil speaking about logistics, which is the key integrator between our assets and our very strong engine for growth.

Now I'm going to be talking about marketing, which is the third essential segment in our highly integrated value chain and also a strong engine for growth.

So some of you may remember that I talked about marketing last year. Well, actually, maybe you probably won't remember because I didn't talk about it for very long. This year, I will be speaking about it more expansively, commensurate with the tremendous progress we have made in growing the business and expanding it and significantly in commensurate with the opportunities that we see in continuing to grow this business.

In fact, our plan, as Greg outlined earlier, is to grow marketing into a $1 billion EBITDA business by 2018. Now marketing is a key element of Tesoro's integrated value chain. It provides an important service to refining by providing secure, rateable placement of products, enabling refining to schedule at high utilization and enabling us to place those products into premier channels and preferred locations so that we can build additional margin on top of what refining captures.

We have made, as I mentioned, significant progress to strengthen and grow the business, primarily through organic growth, and that has created momentum that we will continue to build on, and we have significant plans for additional organic growth going forward. On top of that, though, we have defined and identified substantial additional earnings growth both in the fuel and in the nonfuel businesses, and we plan to accelerate this growth beyond what we are capable of doing in organic growth through strategic acquisitions.

And our strategic acquisitions will focus on high-value channels, the branded channels in particular, and we will also expand substantially into the convenience area so that we can add diversified income through the nonfuel areas of our business.

So from current performance and forward growth prospects, marketing will be a key element of shareholder value contribution.

It is important to start this story by thinking about what is the strategic fit of marketing within the overall portfolio of Tesoro? At the end of the day, the story is really all about margin, and if we stand back and think about what is the basic way that we add value in our business, what we do is we take crude oil, we refine it into finished products that are much more valuable than crude, and then we deliver those finished products directly to our end users.

And if you look at the bar chart at the bottom of this slide, we can build margin across our value chain by starting from crude, working across the refining system to get to those finished products at the spot market basis, and that defines the refining margin. And then, we successfully -- or successively build margin across the marketing value chain through the various channels of trade, so going from spot sale to wholesale adds some margin and value. Going from unbranded wholesale to branded sale -- branded wholesale and then on to branded retail and then finally to Company-owned retail, selling direct to the end user, continues to build value and therefore builds margin.

So marketing contributes all across this value chain in margin, first of all by supporting those high utilizations that Keith was talking about within refining by creating that rateable offtake, and then marketing builds that marketing margin across the whole value chain.

At Tesoro, we participate in all the channels of trade that you see in this slide specifically because we want to maximize our integration with refining. But our goal when we talk about increasing the value of our integration is to move more and more to the right to capture more and more of that margin in marketing.

Now, the strategic role of marketing is important to keep in mind as we talk about growth because we want to continue to capture that integration value no matter what we do as we grow the business. Marketing serving a strategic role in today's business of Tesoro is in existence in every one of the areas where we have refineries. So we have a strong marketing business in Pacific Northwest, in the mountain region, in northern Great Plains, and in southern California, as well as northern California.

We have a very distinctive approach within brands. We have a multibrand portfolio and we market under both premium and value brands. In the premium brand area, we market under Shell, Exxon, and Mobil, and in the value brands, we market under ARCO, Tesoro, and USA.

So this multibrand strategy gives us tremendous competitive advantage. In the first place, we can attract a broader customer base by having a diversified form of brands, and we can attract customers who are attracted both by premium and by value propositions and offers. We can also grow faster because with the multibrand portfolio we have more to offer prospective dealers as we are expanding into that valuable branded retail channel.

And finally, the fact that we have multibrand enables us to address the very diverse preferences of customers by geography, so of all these different brands, different ones have different preeminence and different attractions to our customers in the different geographies. So, when you take a close look at our portfolio, the brand mix varies widely by geography and that is because what we're doing is setting up our brand mix to address our customer preferences.

Our strategy has been paying off. We have transformed the marketing business since 2010. So if you look at the chart here, from 2010 to 2015 we have essentially tripled our EBITDA during that period and the projected earnings for this segment in 2015 are $900 million of EBITDA.

So, granted this was a period of very high margin -- in fact, extraordinary margin, but underpinning this huge success has been essentially a doubling of the volume that we market for refining and our refined product. So we have been expanding our integration tremendously, and we have also, as you note from the pie chart, increased the percentage of branded channel that we use. So if you think back again to this bar chart that I showed you, we have been capturing more and more of that marketing margin as we go along the chain.

We have been able to do that through a series of moves and acquisitions, as well as brand contracts. So back in 2012, for example, we had rights to Shell, but we were able to expand those rights to some of our larger regions, particularly in the Los Angeles area and in the Mid-Continent area.

Then in 2014, we were able to acquire the ARCO brand, and with that came a tremendous amount of very high-quality branded integrated volume. We have grown that to 155,000 barrels a day since then. Along with the ARCO acquisition, we were able to get rights and a franchise agreement to the ampm convenience markets. This is a very high-quality convenience market and we attached that to our ARCO stations to good avail, and we have over 600 sites where we use the ampm brand.

We have also expanded our Exxon and Mobil rights across nearly all of our geographies by now. And finally, just recently, in fourth quarter of 2015, we have been able to acquire 15 very high-value ARCO retail sites in southern California. So, very pleased about that.

So all of these things have been strong drivers of growth for our business, but we are not planning to stop there. From this strong foundation, we will continue to grow to reach this $1 billion EBIT target -- EBITDA target by 2018 that we have been talking about.

So directing your attention to the bar chart at the right-hand side of this slide, you will have noted that a minute ago I talked about a target of -- or estimated earnings of $900 million EBITDA for the marketing business in 2015. Well, we don't want to take credit for the market, as Greg talked about, and we like to look more at a normalized margin. So what we have done in this chart for the purposes of our planning, we have adjusted the 2015 earnings more to this 2016 -- 2016 margin environment that we see.

So that's at the $650 million mark that you see in the bar chart. Building off of that, we plan to add about $150 million to $200 million of earnings from both organic growth and business improvement, and we're doing this through a series of things like investing in brand, store refurbishment, and significantly expanding again into this high-value branded channel of marketing.

Then on top of that, we plan to add between $200 million and $300 million of EBITDA by accelerating the growth well beyond what we are capable of doing through organic growth within that period through strategic acquisitions, and our acquisitions will focus on the high-value channels of branded retail and we will also significantly expand into the convenience markets and add convenience to many -- in many of our locations.

So the next several slides detail the plans behind this. In the first steps, we will start with business improvement so that we can maximize the value we get from our current asset set. We can look at business improvement in a couple different ways, first of all expanding volume, as well as the margin that we capture with the assets that we have. And some of the things that we are doing in order to achieve this is by getting top-tier designation -- it is a quality designation for our gasoline, so that our value customers who come to ARCO can now get high-quality gasoline for less.

We're also doing some significant work in refurbishing our sites, so that's what you see in the before and after pictures in this slide. Much of our -- much of the asset base that we purchased from ARCO was in a fairly old state, and so we have been refurbishing it to an exciting new offer and design that you can see in the lower right-hand corner.

This actually represents a substantial upside for us because still about 40% of our portfolio from ARCO is in the old format, so we will be busy upgrading that, and we are investing somewhere between $60 million and $75 million a year for these refurbishments and other improvements for margin, as well as brand.

Then the other side, of course, of business improvement is cost efficiency and that is not lost on us, so we're working on many different things, including an upgraded point-of-sale system and working with Lean Six Sigma to improve our maintenance practices.

Moving along to that organic growth momentum that I spoke about earlier, we have a lot of progress that we have planned in the area of organic growth, and the organic growth will build off of our very strong brands, including ARCO, Shell, Exxon, and Mobil. We have a plan in place to expand, in fact, our branded stations by about 550 by 2020 and that will bring in 42,000 barrels a day of additional high-quality branded volume.

Now the ways that we are doing this are twofold. First of all, we continue to invest in brands. We are investing in ARCO in some of the ways I described in the business improvement section, and the companies that we have branding agreements with, Shell and ExxonMobil, add tremendous value to our portfolio because they continue to invest in brand as well, and that's a huge value for us. So they are also investing in new station designs that are more modern and exciting. They're investing in exciting programs, like loyalty programs and point-of-sale systems where you can actually pay by your mobile phone. So these are all things that benefit us across our entire system.

The other way that we achieve this expanded organic growth is really through relationships, because it is relationships that earn those contracts with the dealers and the dealers have those high-value channels for dealer marketing -- or branded dealer marketing.

We have had a lot of success with this, so in the last couple of years, for example, about 50% of the expansion that I described that we achieved in the ARCO portfolio was really through dealers signing on to expand their portfolio with us. And another significant percentage of it were the existing dealers making recommendations to their friends and other business acquaintances to sign on with us. So, this relationship of doing what we say we're going to do, and in particular giving confidence that we are investing in the brand, enables us to achieve this organic growth at a high rate.

Now, moving beyond our base business and building upon the success that we have with those 600 ampm sites that I referred to earlier, we are planning to substantially enhance our convenience store position. So as I mentioned earlier, the way we maximize marketing margin capture is by getting closer and closer to the customer. Well, today's customers want convenience. Increasingly, they go to stores for their fuel that have convenience.

So we want to follow what the customers do, and we know that by doing this we can create an extremely high-value of integration in a highly integrated branded channel.

Let's walk through that just a little bit. Why is that? In the first place, because the consumers want convenience, it actually increases the amount of fuel that we sell per site. In addition to that, with a high-quality convenience offer we increase our diversified earnings stream by selling merchandise which tends to have a fairly high margin and it tends to be a very stable sort of business and source of income. So we can actually increase our nonfuel income as well as our fuel income by adding convenience, and those two things together increase our returns by site.

This is illustrated for you in the chart on the right-hand side. The bar chart that you see that says Tesoro current position is the average gross margin for the Tesoro portfolio on a site-by-site basis. So as you can see, we do actually earn nonfuel income at this point, but greater than 50% of what we earn is fuel and we have a fuel-focused portfolio.

If we move to a convenience-focused portfolio on a site-by-site basis and if we apply the industry top quartile performance for strong convenience stores, what you can see happens is on a store-by-store basis our fuel margin increases and our nonfuel margin increases substantially, and those two things together can increase site returns by over 5%.

If you think about the leverage that this gives us in our overall portfolio, where we already have over 2,000 sites and we plan to grow substantially beyond that, this is a very significant growth proposition for us.

Now it is important to recognize that what we plan to do when we are growing in convenience is very, very similar to what we have with our multibrand strategy. We have a distinctive approach where we understand that by geography the customer's preferences for the convenience-store format and the things they are looking for actually vary quite widely.

So we are not going to have a one-size-fits-all approach in our convenience, but instead we will have a geographically focused approach so that we can serve our customers in a way that they see best, and that will enable us to maximize our profitability in convenience and fuel.

With this focus on convenience as a channel format of choice, we plan to build upon our base by a significant program of acquisitions and growth through acquisition, and the focus, as I mentioned earlier, of these acquisitions will be on branded retail so that we can maximize our integration with refining on a branded retail basis and capture that high marketing margin.

In some cases, we will exceed 100% integration, and that will help us bring in additional income by selling third-party product volumes in those regions.

As I mentioned, we will prioritize our acquisitions by looking at ones that have a strong convenience offer and we will be targeting what we look at, again, by geography so that we are picking the things that work the best and have the winning format in each of our geographical regions.

The results of this plan just over the next three years is to increase branded volumes by over 50% and our ultimate retail site count will be at about 3,800 within our plan. This whole effort adds about $200 million of EBITDA to our overall system by 2018 within marketing.

So in summary, marketing is a very vital business that we have already transformed and we will plan to continue to grow it to this $1 billion mark by 2018. When we do that, we will maintain the strong levels of integration that we already have, because this is very important to us within our strategy and within our strategic format. We will do it through organic growth, business improvement, significantly expanded convenience, and strategic acquisition, and it is probably not lost on you that this strategy actually works quite strongly in parallel with what you heard from logistics, which is also an engine for growth based on things like business improvement, organic growth, bringing in third-party income, which is a good analogy to the convenience-store diversification, as well as significant acquisitions.

So, once we achieve this plan in 2018, we will actually have created another platform for growth, and the reason for this is it is a known phenomenon that once you get a certain level of branded integration in a given region, the brand recognition actually fosters additional growth that can't be captured at lower scale, so we are planning on and we will get to that point by 2018.

The other thing that will enable us to continue to grow is we're moving much more into the customer-facing business, which will enable us to respond more rapidly to our customers' changing preferences and it will enable us to bring innovation into this system so that we can have more modern, more vibrant, more relevant formats as we go forward.

So overall, marketing will continue to grow. It will continue to contribute to our overall value chain and will bring in additional income diversified from nonfuel, as well as strong from fuel, and will continue to grow into the future.

So with that, I'm going to turn things over to Steven, who is going to pull everything together between all the plans you heard about growth between refining, logistics, and marketing into our financial overview. Steven?

Steven Sterin - *Tesoro Corporation - EVP, CFO*

The earnings growth we talked about today is going to deliver significant free cash flow. Our strategic financial priorities drive how we think about capital allocation and deployment of that cash flow into investment, returning cash to shareholders, and strengthening our balance sheet.

Our financial priorities have been consistent and enduring over the last five or six years and we continue to expect to apply the same discipline and financial priorities as we go forward.

It starts with the business improvements we have talked about today. Those business improvements drive significant Earnings growth, which also translates into high cash flow. In fact, if you look back over the past six years, we have generated $5.1 billion of free cash flow, and if we look at the plan we laid out today, over the next three years we're going to generate about $4 billion of additional free cash flow.

As we think about deployment of that cash, as I mentioned, three categories -- investment for return, return to shareholders, and strengthening the balance sheet. You can see our strategy here.

First, deployment to enhance return into investment. We target high-return capital investments in our logistics business at over 15% IRRs and in our refining business at over 20%, and that's all with the aim to continue to drive the total Company return on invested capital forward.

Second, we want to have a strong balance sheet. We are very committed to doing that, but doing it in a balanced way and by leveraging our growth to be able to do that, maintaining leverage at levels that allows us to execute our business strategy, pursue growth, but at the same time return cash to shareholders, which is the final leg. And in a moment, we will talk about how the business plans we have laid out today translate into shareholder value both in terms of portfolio, as well as capital deployment.

If you take a step back and look at the EBITDA progression of the Company since 2010, you saw earlier that we started at about $550 million in 2010, and 2015 is on track to deliver $3.9 billion. And if you go back to investor day last year, we talked about a $3 billion EBITDA number for 2017. Today, we outlined our plans to get to $3.5 billion to $4 billion by 2018. If you think about this, that's similar levels to today's EBITDA, but as you can see on the chart on the bottom, it is in a much different market environment, as Greg outlined earlier in the morning.

What's different is we have got $1.3 billion to $1.8 billion of business improvements we have already identified that drive the earnings growth, and we get there in a very different way over the next two years.

I mentioned a moment ago that we have generated $5.1 billion of free cash flow. This chart shows, if you look at the blue bar, that is the cumulative $5.1 billion, but that's not the whole story because we have also created about $2.3 billion in cash that has come from asset sales into our logistics business. So we have generated $7.4 billion of cash available for investment.

Just to be very clear when we say free cash flow, this is cash after our operations and investing in all of our sustaining regulatory and maintenance and turnaround capital, so this is cash available for value creation.

We think it's very important to be transparent with our investors and be held accountable for how we deploy that cash. So if you look at the table on the right-hand side, these are the three categories I mentioned a moment ago -- investment, shareholder return, and the balance sheet. This is how we have deployed that cash over the last five, six years -- investment, $1 billion in income capital, and to these high-return capital projects as I mentioned a moment ago.

Transformative and accretive acquisitions. You heard about several of those examples today, our Southern California refining and marketing business, the Rockies natural gas businesses, and others. And we also divested an underperforming asset in Hawaii.

We've done this, but we've also returned substantial cash to shareholders, taking a dividend that we didn't have a few years ago and growing it to about 2% yield. We paid out about $500 million in dividends. Our approach to dividends is to continue to grow dividends commensurate with the growth of the Company. So it's about dividend growth.

But it's also about repurchasing shares. We deployed this cash there as well. We've repurchased 17% of our shares since 2010. And you heard from Phil about the growth in distributions from the growth in our logistics business.

And finally, if you take a step back, we have been able to grow the business, return capital to shareholders, position ourselves for growth going forward. And we have also been able to strengthen the balance sheet as we've done that by reducing our leverage by about $1 billion, net leverage, over this period of time.

This all needs to translate, as I said a moment ago, into high returns on invested capital. This chart, the blue shows Tesoro's return on invested capital. The yellow shows our peers. If you look at the left-hand side, back in 2010 and 2011 we had a 400 to 600 basis point gap that we started with on return on invested capital versus our peers. If you look at the far right, you can see in 2014 we were 200 basis points. We closed that gap down to 200 basis points. And this year, we are about 200 basis points above. Some of that is market, as we talked before, but the whole industry is seeing some of that.

How we've done that, the formula that we have applied to drive returns is what we have been talking about today. It really comes down to the essence of our business improvement projects, being disciplined and investing in high-return capital projects, the accretive acquisitions that we have been able to execute on and create synergy from, and, finally, the logistics and marketing growth that have contributed to this substantially.

One thing I'll point out, if you look -- in 2013, there was two significant additions to our peer group. So the peer comparisons were adjusted starting in 2013 to reflect this broader industry peer group. So you have got an even more robust comparison as we go forward.

And as we look forward, the plans that we laid out today are projected to deliver $4.8 billion of cumulative cash flow over this period of time. I mentioned earlier that there's about $4 billion coming from business operations. There's also an expected $850 million expected from asset sales of TLP. So we do expect to be able to execute the growth plans Phil laid out, continue to grow distributions in the logistics business, but also be able to return cash to Tesoro shareholders through asset drop-downs.

I'll also point out that our cumulative cash generation is not back-end loaded. You can see in 2016 we expect $1.4 billion, and that's pretty ratable as you move through the plan.

As you move down the page, the first bucket category we talked about of deploying capital is high-return investments. I mentioned that we spent about $1 billion in these investments over the last six years. In the plan we laid out today, there's about $1.1 billion of income capital investments. High return -- these are the projects Keith mentioned earlier that, by the end of 2018, deliver $350 million of EBITDA.

Second, we expect to deploy cash, continue to grow dividends, return cash to shareholders in the form of share repurchases, and maintain a strong balance sheet. So the principles that we have applied historically, we continue to live by those and expect to deploy cash that way going forward.

We also want to maintain a very strong balance sheet, for two reasons. First, we think it's critical for the long-term sustainability through all business cycles. Second, equally important, we want to have the balance sheet ready to be able to continue to grow the business, make investments that we've talked about today. And we believe we can do that and achieve an investment-grade rating based upon the improvements we've made in the business, the earnings growth, our capital deployment strategies. And we think we have already been operating that way.

And so, the way that we think about capital allocation and capital deployment are consistent with how we think about it going forward. So the rating doesn't change it because we have already been operating this way, and our metrics show that.

There's three key benefits that come from that. Obviously, lower cost of debt over time; financial flexibility, which is critical for us; as well as improved access to markets. In terms of cost, 150 to 200 basis points is in the range of historical. That's about $100 million for Tesoro.

Second and equally important, though, is our ability to extend debt maturities, particularly within our MLP. To fund the growth of our logistics business, access to the debt capital markets is very important. And as we look at being able to be investment grade, it provides longer maturities, as well as the lower cost of capital. So we feel that that's important to help match the quality of our logistics business growth profile.

So we just talked about our financial strategic priorities, how cash gets deployed to create value. And now, we want to transition into how our business plans come together in our portfolio and how we think that positions shareholders to have an opportunity as we move forward with this plan.

We shared earlier 2010 EBITDA was about $550 million, principally driven by refining operations. Fast forward to 2015. Through the improvements that have been made, we've got a much more balanced portfolio, a very strong marketing business and growing marketing business, a logistics business that's on track to deliver $1 billion by 2017. And then you move forward into our 2018 plans, and we believe that the integrated nature of our portfolio and the fact that each of these businesses have improvement opportunities, so we are not growing one business at the sake of another; we have growth across all three. We are strengthening all three of these business and it positions us well to create additional value.

We've demonstrated that in our logistics business. So in April, we are going to come up on five years since the IPO. And I wanted to reflect back upon how that has created value for Tesoro shareholders. There's three or four key areas. One, I mentioned that we've generated $2.3 billion of cash from asset drop-downs. And that's going to continue through the next three years.

Second, we are now in the high splits on our general partner ownership. If you look at the top left chart, our general partner distributions are beginning to grow exponentially. And in fact, if you think about the growth plan Phil laid out for you today, 50% of that accretes to Tesoro shareholders through our GP ownership.

In addition, on the bottom left, we've continued to maintain sponsorship and investment in the LP units. We own about 35% of the LP, so we participate in 35% of the LP distributions as well. So in addition to the quality business that we've built, we've got a strong financial connection to the MLP. And we believe that that has translated into very strong shareholder value creation for Tesoro shareholders.

But if you step back and think about the whole portfolio, we think that there's additional opportunities for us to continue to create value. Obviously, you can look at the right-hand side of the chart and think about how to value the business.

But I'll share with you how we think about it every day. Folks talk about the refining industry as being a mature business. The manufacturing process is relatively mature, although we continue to make substantial improvements. But the business model of the integrated, strong refining asset built around strong logistics assets and marketing capability, we believe, is a new business model that's beginning to deliver the returns that it should.

And as we look at that and we think about growth within each of the businesses, the refining business -- very robust, high returns, strong base of assets. Our marketing business, we continue to invest for growth. We have organic opportunities. But we also mentioned acquisition today. We are very cognizant that the cost of capital for each of these businesses is different, refining versus marketing, marketing versus logistics. So as we think about investment for growth and we think about capital allocation, we remain committed to the capital allocation principles we laid out. And we will look at all sources of capital and appropriate sources of capital to fund our growth.

Finally, we covered the logistics value proposition. We continue to build upon what we've done.

In summary, everything we've talked about today needs to translate into shareholder value creation. Our commitment is to not just provide returns, but to provide superior returns to shareholders. We've done that historically. You can see that on the right. But the principles we've laid out today and the plans, we believe the business improvement efforts create distinctive value for Tesoro and that we will continue to have a balanced approach to capital deployment, investing in the business to make it stronger, returning cash to shareholders and having a strong balance sheet, and growing the dividend and repurchasing shares.

So with that, I'd like to ask Greg to come back up for closing remarks, then we will get to question and answer.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

When I listen to it all, I just walk away with one word. And that's our ability to execute. To us, it's really about execution. And one of the points I wanted to make at the very beginning was about the type of Company we are. And we have worked hard to build that capability to execute the business.

So we laid out a fairly ambitious plan today. In refining, Keith talked about what we are up to in refining. Phil talked about logistics; CJ, marketing; Steven, the financial overview of the Company. But when you take a step back, it's all about our ability to execute. And I personally am incredibly confident, partly because of the caliber of the people that I work with, that we can execute the business, but because we can see the opportunities that we are pursuing.

So I'd just like to just take a couple seconds here and just summarize those things as we talked about them. When you take a look at what we see from what we call business improvement, we targeted that $900 million to $1.1 billion of improvements based upon our forecast of margins for 2016.

And we said that is comprised of two pieces. The one piece is our traditional driving improvements in the business, which we said is about $400 million to $500 million. And then, based upon events that happened in 2015 not reoccurring in 2016, we see that $500 million to $600 million of improvement there. So we feel very, very confident in our ability to do that.

We talked about growing the logistics. And we -- our track record, I think, speaks for itself. The unique thing about what we've focused on in logistics is the integration in with Tesoro. So even -- take, for example, the example that Phil shared with you around the acquisition that we just announced yesterday. We talk a lot about those things from a logistics standpoint.

But what that really does is it enhances our position in the Bakken to source crude oil for our refining system so that we can -- because we need to capture advantages. The advantages aren't $1 or $2; it's $0.25 here, $0.50 there by how we go out and do that. So the value there is extremely important. And we see great opportunities to continue to drive that strong integration between logistics and the rest of our businesses.

And then finally, which is really a step change in how we want to go about the marketing business, as CJ talked about, we have made improvements in the marketing business over time. You've seen the number of growth in our outlets in that. We've been operating improvements that show up and account for some of the enhancement in profitability this year.

But when you take a -- how CJ reset the business and said this is where we start from next year, and from there we target to get to over $1 billion, there's a lot of things that have to happen there. But they are actually pretty exciting things, but in a very difficult market. We can't deny that going out and to do the things we want to do, they are not going to be easy. But we believe, because we have a very targeted approach in each geographic area and region, that we will be able to go out and, over that period of time, deliver and get that marketing business there.

So when you pull it all together, I personally like that portfolio, that transition, those three pie charts that Steven showed you, from where we started from and by 2018 to get that 45%/25%/30% portfolio and the income that comes out of that positions us extremely well to have a very strong Company.

So we thank you for taking the time to listen to us. I think that's important. You have to hear -- you have to listen to what we have to say because we are very proud of that.

And now, what I'd like to be able to do is just start to ask questions. So I'd like to ask Keith and CJ and Phil to come up here, and between the five of us, we will answer questions. Doug? I guess -- well, let Sam help facilitate this.

Sam Ramraj - *Tesoro Corporation - VP IR*

I just want to remind everyone (technical difficulty) get you a microphone so you can be heard -- your questions can be heard on the webcast.

QUESTIONS AND ANSWERS

Ryan Todd - *Deutsche Bank - Analyst*

Ryan Todd, Deutsche Bank. Maybe if I could, a couple of quick questions, one on the marketing business. How should we think about -- given the near-term focus on acquisitions and growth in the marketing business and the targeted $1 billion by 2018, how should we think about long-term value within the organization in terms of internally to Tesoro versus potential monetization in the market? And how do you think about creating value internally versus externally there? And then, I have one other.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

I think the first thing that's really important to start the answer to your question is we have to focus on the business, what we have today and, more importantly, what CJ laid out and what we are going to be able to do because when we are successful in doing that, that creates an incredible amount of value.

But part of that does require a fair amount of capital. We didn't talk about the amount of capital that it takes. CJ laid out a couple hundred million dollars of income, and you can do the math yourself to see that -- to successfully do that is going to take some capital.

So it's our intentions as we move forward and identify those opportunities, just like Steven said, we will determine what is the best and effective way of sourcing capital to do those acquisitions. And we think we have a number of opportunities to do that. But today is not the time to answer that because we are very focused on what we are trying to do, and we will address that as we move forward

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Ryan Todd - *Deutsche Bank - Analyst*

Okay, thanks. And then maybe one follow-up on assumptions in here in terms of proceeds from drops and the way maybe the drop structure has changed going forward. If I'm looking at the numbers correctly, are the right assumptions on future drops to TLP, you are assuming a 50% cash split at a multiple that's around 7.5 times? Is that the right way to look at these in terms of trends on multiple and cash versus unit splits going forward?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes. Steven, do you want to comment on that?

Steven Sterin - *Tesoro Corporation - EVP, CFO*

Yes. I think the first part of your question, the answer is yes. We do think about a guideline of about 50%. That can vary, depending on the type of drop and what's going on within the business.

Second, I think a better range, if you just look at historical comparables, is probably closer, more in the 8 to 10 range. But it really depends on the asset. Some assets will be at the lower end of the range. Some could be above that end of the range.

So there's not -- because of the way Phil described our drop-down portfolio, it's not just a whole series of tanks and terminals. They are very, very different business assets. They all have unique value. So I think if you want to use a planning assumption, 8 to 10 is not a bad macro range. But we will talk about each one uniquely.

Ryan Todd - *Deutsche Bank - Analyst*

Thanks.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Greg, thanks for all the information this morning (technical difficulty). Doug Leggate, Bank of America. Just a follow-up on the retail business because $1 billion gets you to a pretty robust standalone business --

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Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Absolutely.

Doug Leggate - *BofA Merrill Lynch - Analyst*

-- that trades at a substantial multiple if you look at public comps relative to where you guys are. Is there a point in the future where you see retail becoming a standalone entity or at least a publicly traded entity as a way of releasing value? And just to pin you down a little bit, should we think of 8 to 10 times as a good multiple on the EBITDA that you are looking to achieve as well, in terms of acquisition costs?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

I think what's important, Doug, on our marketing businesses is that as we evaluated our current position, we see substantial opportunity to drive improvements in it.

So if someone were to value our marketing business on a comparable standalone basis, we would probably be more towards the lower end of that range, primarily because of CJ's comments about a weaker convenience store op than the stronger companies that would trade up there. So that's why we see that as a very important opportunity to be able to go in and drive that. And doing that successfully should move us to a more premium business and closer to that higher part of the multiple.

Our Company is a highly integrated business. So how all of those pieces fit together, everything we talked about today, that has to be one of the most important things. When you look at how our acquisition of feedstocks, through the logistics system, through the refineries, through the logistics system out into the different marketing channels we go, that integrated value -- there's a lot of synergistic value there for the Company.

It's probably not very likely that we would ever spin off our marketing business, but we can look at ways to raise capital to get the most effective cost of capital, like Steven said, when we start to grow the business.

Doug Leggate - *BofA Merrill Lynch - Analyst*

I appreciate the answer. On the acquisition scale, 8 to 10 times is an acquisition?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

We look at the marketing business and think that we can find opportunities where it's probably going to -- the returns are going to be in the 12% to 15% rate of return. So you can do the math from there.

Doug Leggate - *BofA Merrill Lynch - Analyst*

Thanks. My follow-up is really just on the Bakken differentials and the west coast strategy. Just order of magnitude, where things stand today, do the economics as you think about it still work?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

From Bakken to the west coast, there's a couple things that have -- there's one thing that hasn't changed. And the yield advantage that we get off of Bakken in our west coast system has stayed the same. So we still get that $3 to $5, as [Danny] said, we've talked about now since we started moving Bakken to the west coast. That is still there.

The other thing is that we are starting to see the cost to move that change to get to the west coast. The short-term differentials on Bakken, they have been pretty tight this year, for a number of reasons. But we still see that, over time, because of the advantages of getting the lowest cost to get to the west coast, as well as the yield advantage, we see economic value to move it there. But it's not as great as when the Bakken differentials were blown out, that's for sure.

Steven Sterin - *Tesoro Corporation - EVP, CFO*

And the economics that we laid out today for Vancouver Energy are contemporary with those views of the market.

Sam Ramraj - *Tesoro Corporation - VP IR*

Phil?

Phil Gresh - *JPMorgan - Analyst*

Thanks for all the color again today. We really appreciate it. My first question was just looking at the sources and uses of cash moving forward. You talked about $3.7 billion of excess cash flow. If I think about a dividend of maybe, cumulatively, $800 million, the multiples Doug was referencing on the retail M&A front, it would imply that there isn't a lot left over for buybacks. You didn't really discuss a lot about buybacks, but should we interpret that given where your balance sheet is, that the retail strategy is one where you are going to use more leverage to get there and that you are going to commit to the same amount of buybacks you've been doing over time?

Steven Sterin - *Tesoro Corporation - EVP, CFO*

Yes. I think, to be clear, the point I was making about our capital allocation principles consistently applied, and the concept of marketing, looking at all potential sources of funding, not necessarily funded out of free cash flow. It could have some modest amounts, but not material.

And so, we think about those funding separately from the capital allocation principles to fund that growth. So I wouldn't necessarily do the math the way you did it. I would think that there's optionality to that. But that's not the principle. It's not consistent with the overall principles that we laid out today. It's to find the most appropriate allocation of capital.

So share repurchases, we continue to repurchase shares. We've got about $1.5 billion outstanding on our authorization as of the end of last quarter. So it's still a very important part of the overall return of cash to shareholders.

Phil Gresh - *JPMorgan - Analyst*

Okay, thanks. That's helpful. My final question is just on the LA integration project and I just want to get an update on where we stand on the approval process. I think the target, if I recall from last year, is hopefully to get it by the end of this year. So I just want to get the latest status.

Keith Casey - *Tesoro Corporation - EVP Operations*

That's correct. So we've submitted all the information and it should go public comment at any point now for the permit. So we are very optimistic that we'll -- nothing we can see today would change our belief that we are going to be well in position to begin construction next year.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes, this is a project that reduces CO2 by over 300,000 metric tonnes a year. Besides the impact that it has on the Company with everything that Keith talked about earlier, it has a very positive impact on the environment.

Sam Ramraj - *Tesoro Corporation - VP IR*

Paul?

Paul Sankey - *Wolfe Research - Analyst*

Thanks. Is this working? Hello? Greg, if I could just go back over a few of the growth elements of the expansion story in a single question, in three parts, but one which grows in its expansiveness. Firstly on marketing, I was just wondering if you had a volume growth in terms of gasoline demand and overall market. I know that you've done a consistent job of saying we are not expecting anything from margins. But I just wondered if you were looking for market expansion in the US and whether you could expand on the geography that you intend to grow.

And as I see, you've moved further east. And I think I misheard, but there was something about branded and unbranded acquisitions. I didn't know whether you were saying you would buy branded or unbranded. That's part one.

On logistics, it seems that we've obviously got a lot of news flow around Kinder and Plains and others who are exposed to the oil market who are really almost throwing in the towel. You are in areas where, clearly, activity is being affected. But you are reiterating a pretty powerful growth story. Can you just talk more about that, please? Thank you.

And then, finally, on refining, I just wondered the extent to which you seem to have a fairly low CapEx with quite a high growth in EBITDA. And if you could just talk a little bit more about it. I know you have attempted to go through that. How dependent is some of that on the CapEx plans that you've got? And very specifically, I wondered how dependent on the Vancouver projects. And apologies for a long laundry list. But that's it.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes. So maybe easiest to start with the last question and work our way backwards, because that's the only one I can remember.

Paul Sankey - *Wolfe Research - Analyst*

I can repeat them.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

No. Seriously, in refining, Paul, let me just make sure I understand your question. Was your question about the amount of money we are investing into EBITDA that's attributable to those projects?

Paul Sankey - *Wolfe Research - Analyst*

Somewhat, yes. I know you've attempted to answer this question already, obviously, through your presentation. But I just wanted to run back over it. It is a very important part of what you are doing and I just wanted more of an idea of where this EBITDA is going to come from, given that you are coming off a high-margin environment.

You are saying that you strip that out, but we still see tremendous growth. As an example, you've got very high utilization.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Right.

Paul Sankey - *Wolfe Research - Analyst*

And it seems that there's not a huge amount of upside there. Anything to add, essentially, would just be interesting at a high level.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes. So on the projects, we have a little bit less than $1 billion of spend for the projects that Keith laid out. So our spend is about -- a little bit less than $1 billion. And some of that we spend on engineering work, but we will spend between now and over the next three years.

And the combined impact of all those is about the $350 million, part of which is some of the value that we capture from Vancouver Energy from a supply standpoint. So if you recall on the slide that Keith showed on Vancouver Energy, it showed a couple hundred million dollars of income, part supply and part of it is logistics. But the logistics part is nowhere near as robust as it was when we first came up with this idea a couple of years ago.

So those projects and the income, they are all highly attractive. If you listen to how Keith described them, they have very important strategic implications to the Company because of the flexibility to go between gasoline and diesel, the ability to create competition between Bakken and AF crude differentials and a number of those things in there. So that, I think, we feel very, very [calm] about.

The EBITDA from refining, I think in general, just the base operations that are -- I think Keith showed you this year and you rightly pointed out that the margins have been very strong this year -- and absolutely, it's true -- that we see that -- in that year, I think refining makes about $2.6 billion of EBITDA. Well, in a lower-margin environment, it's not going to be able to make that.

But what we do see is we have run it the 97% utilization. So we are very comfortable there, with what we have going on, that we can get to that 97% utilization because of what happened this year. We are -- one event was completely outside of our control. So we feel comfortable that the EBITDA from refining, based upon those numbers, gets you up over $2 billion of EBITDA from refining, which fully supports the cash you need to reinvest back into the refining business. So that's on refining. Was there any --

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Paul Sankey - *Wolfe Research - Analyst*

Part two was the logistics, the sort of (multiple speakers) the wider environment of sort of decline in the US. We were with Murphy Oil last night. They cut CapEx by 10% for next year (multiple speakers)

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

But your question on refining, did I fully answer your question?

Paul Sankey - *Wolfe Research - Analyst*

Yes, that's fine. I think within the limits of what time we've got, yes (multiple speakers)

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

So the second thing, on logistics, I think one thing about logistics -- in a way, we are a niche company. You don't see us going out and putting in a $5 billion pipeline. We are not making those big type of things. So even though we are very focused in our region, we are a niche logistics company.

We are integrated in with Tesoro's value chain. And the opportunities that Phil pointed out, specific examples of things that we are doing to go in and work with producers, or, on the other end of it, to be able to tie in those projects, but in a way they are niche projects.

So there's a lot of them. A lot of them are smaller projects. Our biggest logistics project that we've ever done is $150 million. We just finished it this year. And the portfolio of things that Phil showed in the capital spend, they are circa -- some of them, the largest ones, are only $100 million.

So I think you need to keep it in perspective when you compare us to some of those other -- we are not driven by the same things that they are. We need the growth and there's no question that the lower crude oil environment and natural gas environment for prices has an impact. But because of how we position ourselves, we feel we can capture those niche plays.

And more importantly, we are working on things to venture out into Powder River, into Niobrara and that. But they are more niche plays; they are not big moves like those other companies. That's from logistics.

Paul Sankey - *Wolfe Research - Analyst*

Understood. And then the final one, if you recall, was just marketing.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Marketing.

Paul Sankey - *Wolfe Research - Analyst*

Yes. Thank you all.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

So in marketing, the growth in marketing -- maybe you better ask that question one more time, just so I don't --

Paul Sankey - *Wolfe Research - Analyst*

(inaudible - microphone inaccessible)?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

So the growth in gasoline demand we see being less than 1%, so we are not very bullish on gasoline demand growth. Although in our geographic area, particularly California, there has been over the last few years pretty robust demand growth.

As we look forward, we see it below 1% and over time flattening out. So we don't see our growth coming from growth that's a result of demand increases. That's the one thing.

Our marketing strategy, which CJ pointed out is very regionally focused, it's driven by how we integrate in with refining because we want that connection. It's almost a physical connection. So we are not source and marketing that we are trading into a different area. We're almost physically integrating those marketing assets in with refiners so that we can get those value benefits across there.

And each region is different. Each of our regions are different. So California is very much a gasoline-driven marketing business. And the convenience store is not as important as it is in other regions, which are very much convenience store and then they sell gasoline.

So we -- one of CJ's points that she tried to make is we need to target the market that way, and the unbranded business, they definitely play a role in what we're trying to do.

Ed Westlake - *Credit Suisse - Analyst*

Ed Westlake, Credit Suisse. Still sticking with logistics on slide 46, you have something like $1.5 billion to $1.6 billion of CapEx for $235 million to $300 million of growth EBITDA. Those are relatively low multiples or high returns. So can you talk through how much of that is already fee based, you are talking with customers? And just maybe a general concept as to why you think you can deliver lower investment multiples and more attractive investment multiples than the industry average?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Phil, do you want to answer that?

Phil Anderson - *Tesoro Corporation - President Tesoro Logistics GP, LLC*

Sure. Ed, I think part of that is the CapEx spend in 2018 probably doesn't deliver EBITDA until 2019. So you've got a little bit of timing issues in there.

I think overall we see our typical returns, 15% to 20%, being pretty stable across the system.

Steven Sterin - *Tesoro Corporation - EVP, CFO*

Yes. The principal model, too, in those investments is a fee-based model. So consistent -- and if you look back over the last three years, as Phil said, we've had -- and that's what we have emphasized organic growth because they have been about 5 to 6 times multiples versus a drop, which could be higher in acquisition. That's why the strategy, as Greg mentioned, being niche focused, is really around the organic opportunities where we can bring unique value and get paid for it.

Ed Westlake - *Credit Suisse - Analyst*

I guess folks might just be surprised at how attractive that investment is relative to the stress in the upstream, which is the part of my second question, which is counterparty risk across your third-party business, maybe any color as to how much is sub investment grade in terms of the suppliers to your business versus investment grade. I don't know if you've done any analysis around --

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes, we have.

Steven Sterin - *Tesoro Corporation - EVP, CFO*

We have. We have very strong customers. If you look at who we deal with in the Bakken, first off, it tends to be customers that Tesoro deals with in its overall crude business. So it's typically the larger independents and the majors.

And in the Rocky Mountains, it's a utility. The one smaller independent we deal with is very well capitalized. And everybody else, again it's majors and large independents. So we actually have a very strong customer base.

Ed Westlake - *Credit Suisse - Analyst*

And then, this final one is a softball for Greg. You mentioned 25% optimization benefits, I think, in your opening remarks. And then, you said we would get a sense of how much was included in the business plan. I guess I have to do some math, but how much upside is there to this business plan if you execute on that 25% number?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes, Ed, and let me just be very clear about my point there.

From my personal experience in the industry, I believe that when you are very good at optimizing along that value chain, you can enhance your earnings by about 20% to 25%. And what I said was we capture some of that today. So we believe that there is upside. So we have an effort going on in the Company where we are looking at each of our regions and looking at how we optimize those value chains. And we haven't built those into our plans, actually.

But we started that about midyear this year and we are developing how the people work together to capture those optimizations. Just from my own experience and what I used to do, I think it's possible to be able to do that. We capture some of that today through what we call capture. But it's not built into our plans and as so.

Unidentified Audience Member

Greg, a couple quick questions here, plus one comment. The first comment is I want to thank you for this slide showing the benefit of getting to investment grade and how you would be able to extend the maturities. I think that was a good slide.

As a follow-up to the concept of the typical range for asset drop-downs to the MLPs, that could be 8 to 10 range, but every asset has to be looked at separately. Just out of curiosity, I look at the Vancouver Energy project. And I don't know if it's 80/20, 50/50. But even if it was 100%, you are talking about a 2X type of a project. At the low end, it's 400% return to the parent. I know this is really for the battle of the committees to figure out what a fair value would be.

But on something that has such a quick payback and a low multiple initially for operations, would that still typically fall in an 8 to 10 range? Or would that be underneath that low end, do you think, when the committees came out behind closed doors?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

It's actually probably too early to judge that. I think we have a lot more work to do on how that comes about. That market is changing quite a bit on what the rates are on that. I think we are seeing it up in, say, North Dakota. So on the loading end of it, one of the things that we just did is we bought an asset that will change our cost to load the crude oil. So we will have to work our way through those. We see different rates. And it's probably just premature to comment on that.

Unidentified Audience Member

Okay. And then, I guess, the other question, and maybe it's just a clarification to me, is the benefits that you saw in 2015 you said are going to come back down for Tesoro are still going to go up because of one-off items in 2015 that won't repeat. Were those basically situations that improved your margins so the volumes will stay steady, so to the extent that there's flow and payments to the MLP for utilization, that should stay pretty stable? Or will there be an impact to the MLP by that coming down as well?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

There will probably be impact to the MLP. That was impacted slightly by the results in the refining business, so there will be some slight impact. We haven't called that out of what that would be, but it would be slightly an improvement for the MLP business.

Unidentified Audience Member

Okay. Great. Thank you.

Sam Ramraj - *Tesoro Corporation - VP IR*

Paul.

Paul Cheng - *Barclays Capital - Analyst*

I think I have two questions. One is for CJ and one probably for Steven. CJ, over the last 15 years, as far as I can remember, going into convenience-store business is really the strategy for every single refiner in that business. But quite frankly, no one seems to be very successful. The only guy that has been successful is probably Speedway.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Right.

Paul Cheng - *Barclays Capital - Analyst*

So the real question is that why you believe you will be able to (inaudible) and how that you are structured differently than everyone else as to make you believe that. And also, do you really already have the right people? That's my first question.

Second question is for Steven. In the press release that you sent out this morning, the cash flow from operations you cite for the next two years, 2016-2017, [quoted] roughly $1.8 billion, $1.9 billion. If I look at the total CapEx including the growth capital, it's about in the $1.6 billion, on average. Your dividend is about $200 million. And distribution to the minority unitholders in the TLLP is probably another $200 million to $300 million. So that means that [after audits] those actually have no free cash flow.

So should we look at it and assume the share buyback will be a function of how much you can do to drop down and actually get the cash? In other words, that depends on the capital market being open for the TLLP? Thank you.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

CJ, why don't we address marketing first?

CJ Warner - *Tesoro Corporation - EVP Strategy & Business Development*

Be glad to. So in a way what you outlined is an advantage for us in that we have a lot of good examples of what doesn't work. And there are some good examples of what does work.

So going into convenience just to go into convenience and not picking the winning format and not really having the capability to make convenience work is a good way to not be successful. But there are some good, successful models out there. There are some very successful convenience formats. And there are winning formats by geography. And all those things are what we have in our sites and what we will be using in our forward approach.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

I think one thing that's important to add to what CJ said, Paul, is that we already have those sites, that we are not going out to create those. So we can take how it performs today, and if we get to the target that CJ laid, that says that we can improve the internal rate of return on those investments by about 5%. So that's the direction we need to get there.

But your point is about who does that well. I think you are right. If you look at the best convenience-store operators, they are private companies. It has been that way for a long period of time. And so, we will learn from that and be able to go in and make substantial improvements in what we do today to get that benefit.

CJ Warner - *Tesoro Corporation - EVP Strategy & Business Development*

One of the things that may not have been clear from what I was talking about is that the convenience and fuel format (inaudible) fuel-led format that has convenience attached to it or it can be a convenience-led format that adds fuel. And it's the convenience-led formats that we are looking at and that we see are more successful.

Steven Sterin - *Tesoro Corporation - EVP, CFO*

And on the cash flow question, if you look at page 68 in the presentation, 2018, the cumulative cash flow over the plan period is $4.8 billion.

And just to be real clear, that's already after all maintenance, regulatory, and sustaining capital. Okay? So you take the $4.8 billion and you look at the growth capital, and you can subtract that, about $1.1 billion, which gives you $3.7 billion of cash available to deploy.

And so you said dividends. If you think about roughly $800 million over three years, that leaves $2.9 billion of cash available for further investment, share repurchase, et cetera. So I think you may have taken out regulatory and sustaining capital from those numbers that are already deducted from there. If there's any questions, we could follow up with you specifically.

Chi Chow - *Tudor, Pickering, Holt & Co. - Analyst*

Chi Chow, Tudor, Pickering, Holt. I don't see a slide in the deck on this, and maybe it's in your email you sent out this morning. But can you summarize the capital program for both a TSO standalone and TLLP for 2015 through 2018?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

It might be piecemeal in here, but it would be helpful to get some sort of summary on just --.

Keith Casey - *Tesoro Corporation - EVP Operations*

(inaudible) is on 27, Greg.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

So on page 27 -- I don't know if somebody can click those slides back there to page 27. That would be good. So, Chi, in 2016 you can see that our sustaining capital is about $400 million, for refining. So that's what we would call regulatory and maintenance capital. And then you can see what it does over the 2017 and 2018 period of time. From an income capital -- is that in the backup, Steven?

Steven Sterin - *Tesoro Corporation - EVP, CFO*

That's the $1 billion.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

So over the cumulative impact -- so in 2016 there's $400 million; $430 million -- it's on page 68, $430 million. Then it grows to $1 billion --

Steven Sterin - *Tesoro Corporation - EVP, CFO*

That's cumulative. So there's $530 million --

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

-- by 2018.

Steven Sterin - *Tesoro Corporation - EVP, CFO*

$530 million in 2017.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes. And then a little bit in 2018, about $100 million is all. So that's for Tesoro.

Steven Sterin - *Tesoro Corporation - EVP, CFO*

And also, if you look at the press release, we've got a table that shows, each year -- regulatory, maintenance capital, as well -- that could walk you through that.

Chi Chow - *Tudor, Pickering, Holt & Co. - Analyst*

In the emails -- so just to clarify, the total TSO is TSO standalone?

Steven Sterin - *Tesoro Corporation - EVP, CFO*

Yes.

Chi Chow - *Tudor, Pickering, Holt & Co. - Analyst*

Okay.

Steven Sterin - *Tesoro Corporation - EVP, CFO*

Yes.

Chi Chow - *Tudor, Pickering, Holt & Co. - Analyst*

Okay. And then a question on the gasoline market -- can you talk about the sustainability of this octane premium that we've seen this year? What is your thoughts on that? And are you thinking about allocating capital to capture the arbitrage from what we've seen?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Keith, do you want to respond to that?

Keith Casey - *Tesoro Corporation - EVP Operations*

Yes. So as Gregg said, we don't see a tremendous upside, but we do see some sustainability there. And that will be important because if you think foundationally why is that occurring, as manufacturers work to produce tier 3 gasoline, which further reduces the sulfur content of the gasoline, that typically has an octane associated penalty. So that is going to drive some of the value of our octane up over the market. And our strategy with the isomerization project is we are taking that into synergy to reduce the overall octane cost. So we think that's going to be pretty durable. And we will continue it in the future.

Chi Chow - *Tudor, Pickering, Holt & Co. - Analyst*

With the xylene project, you are taking high-octane out of the market. And if you look at those economics today, it just seems like that would be a negative margin. So does that project still make sense, long-term?

Keith Casey - *Tesoro Corporation - EVP Operations*

Yes. It's a great question. When you look at it, so we are -- the reformers that produce the octane and also the xylene molecules -- they are running at a bit lower utilization today in the US. And there's a combination of factors because of that. One of the byproducts is hydrogen off those units. And with natural gas, there's less economics.

So expanding and running those reformers to full rates, we will be able to extract that xylenes molecule, and we will still be able to have the octane benefit coming from that. And then we clean up the naphtha streams through our naphtha optimization and produce more octane through the isomerization.

So, net-net, it's that synergistic effect. So those two slides we were talking about, the cleaning products upgrade project really gives you that capability to do both. And then through our network on the West Coast with the three large refinery positions, we are able to bring those naphthas into extraction to gain the most margin.

Evan Calio - *Morgan Stanley - Analyst*

Evan Calio, Morgan Stanley. Your concluding slide, on 75, you show your implicit goal of capturing a higher multiple. Right? And you even talk about methods of forcing that valuation in the marketplace via other monetizations. And as in 2018, refining's a minority of your EBITDA, as kind of an across-the-industry trend.

So the question is, with that goal in mind, does that color or drive or change your appetite on refining acquisitions? Is everything -- is your M&A strategy going to be focused in the same direction of driving the higher-multiple businesses? And I have a follow-up.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes. Our growth, Evan, to grow the Company, what we have tried to lay out today specifically in logistics and marketing, I believe, is very targeted on what we are trying to do in those two parts of the business. But we have always had a strategy in our strategic parties -- we call it value-driven growth. We've always looked for opportunities on how we can grow the value of the Company that's really highly accretive to the owners of the Company.

If we find opportunities from an M&A standpoint, we would look for opportunities that are -- they fit our business model, they are in our geographic area, and they provide significant advantage for us to be able to capture -- whatever you want to call it -- synergies and improvements in the business by the way that we would run that business. But it's not driven as much by the multiples that we show there. Those are just the facts of how the business has traded. But our focus, if we were to be able to pursue an opportunity, would be driven by those factors around what I just said.

So the purpose of slide 75, which is to say we've worked to get this portfolio from where it was in 2010 to where it is today, and where we want to take it by 2015 because of everything we talked about today -- by 2018, excuse me -- and if by doing that, and we get the EBITDA up to that level that we've targeted there, and where the businesses trade today, that's how the business would be valued.

Evan Calio - *Morgan Stanley - Analyst*

Great. That is very clear. And my second is, as you look into 2016, are you willing to continue to absorb the growth of the midstream by taking units versus potentially decelerating growth in what is a very uncertain US commodity outlook? But given also what's implicit in growth assumptions within those vehicles.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes. Steven, do you want to respond?

Steven Sterin - *Tesoro Corporation - EVP, CFO*

Yes. As we look at the project that we've got today, Phil mentioned as we look at 2016, a lot of the growth is driven by projects that are either complete, nearing completion, or committed. So we feel very good about the growth plans we have for next year.

In addition, the capital allocation strategy for TLP -- as somebody mentioned earlier -- the plan that is in here today is about 50/50, with Tesoro taking some equity but also continuing to monetize. So we still think it's important to be able to do both. But we want to think about the long-term sustainability of the business.

So we are not going to compromise if there are short-term negative market fundamentals to do something that doesn't make sense. But generally, that's how we think about the approach. And that's how we feel comfortable today that that's our plan for next year is to continue to have 50% cash coming to Tesoro, and about 50% equity.

Jeff Dietert - *Simmons & Company - Analyst*

Jeff Dietert, Simmons and Company. Greg, you highlighted execution as one of the key aspects. And I wondered, within the refining segment, you've got four major projects that are coming on in a relatively tight time frame. So they are going through permitting, engineering, construction, and bringing it into service in a relatively tight time frame.

How do you manage strains on the organization? What are some of the critical path items for those major projects that are targets you need to hit? And maybe focus here in 2016.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Excellent question, Jeff.

Keith, why don't you talk about how we go about to execute those projects?

Keith Casey - *Tesoro Corporation - EVP Operations*

Yes. So from a high level, when you think about where we are at in those projects, and I will start off with Vancouver Energy. We are 28 months into the permit process now, the 12-month permit process. And so that has given us an abundance of time to complete all the engineering. And we are really ready for shovels in the ground. Actually, within that labor force that is in Vancouver -- which is very close to Portland, not British Columbia -- within that labor force, there's readily available trades. And we believe we are ready to execute. And actually, that has been a key part of our strategy when we talk about shared values. Labor is very supportive of this project because of the support and jobs it will bring to the economy.

So then when you go down to Los Angeles integration and compliance project, again, that's a project we've developed since 2013, when we closed on that asset. Originally, we thought we were going to build a big diesel hydrotreater. We've found a better way now, with the modifications to the process units and with the pipeline interconnectivity. So we are well advanced in engineering. And again, we are ready with contracts and contractors to execute those projects.

The one that we are earliest in, last year in the capital plan we just talked about developing it, and that was to make xylenes. But mixed xylene is -- actually the process technology and isomerization technology -- it's pretty standard refinery technology. The unique way is the way we are connecting the logistics on the West Coast. But that's something we know very well how to do. So we feel very good about our capability to execute, and are just anxious to get the permits and to start putting shovels in the ground.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

We have project managers that are responsible for each individual project in the organization to be able to go out and do that. And just to build upon what Keith said about the mixed xylene, it's a stand-alone unit. There's not a lot of integration into the Anacortes refinery, which makes the execution easier than it would have been if it was highly integrated into the processing unit.

Jeff Dietert - *Simmons & Company - Analyst*

Secondly, for Phil, if I could ask about the diversification within your MLP, the low oil price environment is impacting a lot of the investment and producing activity. Just a quick look through your EBITDA enhancement -- it looks like you are gathering system growth has moderated a bit, while your terminals growth has accelerated a bit. And maybe talk about the diversification across the portfolio, and how that impacts your ability to grow.

Phil Anderson - *Tesoro Corporation - President Tesoro Logistics GP, LLC*

Yes, sure. You have got it exactly right. We have seen impacts to the prospects for the gathering and the pace of development in both areas. That being said, with the demand growth, with the projects that Tesoro is pursuing, we have focused very much this year on growing that demand-focused portfolio of opportunities. And that's something, like I said, we've got resources continuing to build that portfolio. And we will pursue those opportunities because they feel very secure; they are comfortable; that's in our markets; very durable.

Unidentified Audience Member

[Christina Sterring], DB. So, Phil, clarification question on that: so if I think about the $800 million to $900 million that's in the [GNP] segment for growth sales out, what is the sensitivity there when you're thinking about that? Most of that is not contracted, at this point in time. So what commodity prices are you using? Is it a magnitude that could have sensitivity? Is it returns? Just help me frame that up.

Phil Anderson - *Tesoro Corporation - President Tesoro Logistics GP, LLC*

In the logistics space, we can typically see out, sort of a couple years in terms of projects. So I think, as Steven said, in terms of 2016, those projects are largely complete. The commitments have been made. It's really just bringing that business online at this point.

As we look out further, we are in the types of dialogues with the types of companies that we would want as customers, who -- I don't think everybody is planning a $30 price deck for three years type of approach. But it is dependent on sort of a -- I won't say a return to normalcy, but at least some forward progress on development around those fields.

Unidentified Audience Member

Great. And then, Greg, a quick follow-on to that. When I think about logistics M&A, should I be thinking small bolt-ons, like the past two that I just saw? And how do I think about asset type and what it does to the business mix, in terms of percent volumes that are Tesoro-committed versus third-party committed, and what Q1 the goal number for that to be over the next 3, 5 years?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

I think the answer to your last question is directionally we are moving away from Tesoro's commitments, Tesoro Logistics, and pursuing third-party business, partly because we tried to capture the synergies of how we go about that business. But today we are around 50/50. That was a target. And now we would move more to the third-party business because of the projects. By default, we get there by the projects that Phil has talked about in his presentation that we are doing in support of logistics services to people in our areas, particularly where we can then go in and acquire the crude oil.

So we don't have a specific target, Christina, for where we want to get to. But it will become less Tesoro and more third-party business over time. That's one question.

The first one you asked -- state that again, just so I can --.

Unidentified Audience Member

Types of the asset mix, so like small -- should I assume small bolt-ons, not that logistics was as small as the retail in Alaska. And that's my assumption because you didn't technically give me an EBITDA number. Just walk me through stuff like that.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes. So we are looking at -- we stay focused in our area. I think that's an important thing. A lot of the things that the organization is looking are generally a little bit smaller. There aren't any major things that we're looking at now. We would look at potentially companies -- if it fits into our business, especially in this environment. But our business development people have been more focused on doing things to drive organic growth in that. But we will scan everything that's available in the market. It just has to fit our criteria for fitting into the Company.

Faisel Khan - *Citigroup - Analyst*

Faisel Khan, Citigroup. Just a couple questions, one for Phil, and then Keith and then CJ. Phil, the recent rates [on order of anticipated] transaction is targeted 5 to 6 times EBITDA, once you have integrated the system into your portfolio. Is that the new market, do you think, for acquisitions out there? Or is this a one-off, unique opportunity that exists today?

Phil Anderson - *Tesoro Corporation - President Tesoro Logistics GP, LLC*

This was definitely a single opportunity that was pursued. I think it's uniquely positioned. I think we have a lot of unique value because of the way it fits into our pipeline system up there. So I wouldn't call the market based on a single transaction at this point. Every asset trades around the outlook for what's capable and who has synergies around it.

Faisel Khan - *Citigroup - Analyst*

Okay. And then on the refining side, Keith said the turnaround in sustained spending is rising. I think some of that you described as tier 3 capital. What is causing this general inflation with sustained capital spending and the turnaround spending that we've seen in the previous years?

Keith Casey - *Tesoro Corporation - EVP Operations*

In the turnaround category, we are actually working to stabilize and balance that spend over the course of years in that $250 million to $300 million range. And then we drive that down in competitive performance. The sustaining capital, as we've talked about, is really the primary area where we are driving our liability improvements. We are investing to have lower costs through the cycle or emissions reductions. So as you mentioned, tier 3 gasoline would be in that component.

We also have a couple of large projects, or sizable projects, at Salt Lake City and Martinez, where we are going to further improve our environmental performance and compliance and the reliability of those assets over time. So that's where you see that peak in capital really around the 2016-2017, in the sustaining category. And we will work that down again, over time, in the base, and really focus on the competitiveness over the cycles.

Faisel Khan - *Citigroup - Analyst*

Okay. And on the integration project, the 30,000 to 40,000 a day of flexibility between gas and distillate that you are going to add -- is that an immediate switch from distillate to gasoline, when that project comes online? Or is there some sort of addition? How is that volume really going to translate into what gets into the market, and what comes out of the market?

Keith Casey - *Tesoro Corporation - EVP Operations*

Yes. And the danger is refining (inaudible) on this question. But we are able to maximize. And we are going to be able to make 100% CARB gasoline out of this asset, which we presently can't. There's a certain volume but we don't make 100% CARB. We are taking those molecules that today are not of CARB quality or tier 3 standards. And we are going to be able to make them CARB gasoline. In addition, we are taking any distillate molecules that were not optimized between both refineries and we are putting them into the highest-value place.

Through our creative use of the hydrotreaters, we're going to be able to swing that production of gasoline to diesel another 30,000 to 40,000. And that's really distinctive. You see some of our competitors making big bets on big diesel hydrotreaters. We believe that flexibility and agility is a competitive advantage. And we want to be able to take advantage when it's a high gasoline market and when it's a high distillate market. So we are really going for the flexibility in our design.

Faisel Khan - *Citigroup - Analyst*

Net-net, how much CARB gasoline will you add to the market after this project if it's done?

Keith Casey - *Tesoro Corporation - EVP Operations*

I don't want to give that out. But we will be 100% CARB. Okay?

Faisel Khan - *Citigroup - Analyst*

And for CJ, a last question for me. Marketing -- is the goal to get to 3,800 stores -- I think there's about 13,000 stores in California. Is there a limit in terms of how many stores you can own? At what point can you -- are you not allowed to own anymore stores and the FTC sort of --)

CJ Warner - *Tesoro Corporation - EVP Strategy & Business Development*

Well, I suppose that would -- if we really push the limit, that would be something that we would have discussions about. But the store additions that we are looking at aren't in just one region, of course; it's across all of our regions. And the focus that we have is trying to get to 100% integration. So we may go above 100% in some regions, partly because the businesses that we are looking at just happen to be attractive at higher than that. But if you want to get your head around where those stations are all going to be, it's going to be scattered based on our refining production.

Faisel Khan - *Citigroup - Analyst*

There's no market power test by owning too many stores, as far as --.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

You have to remember, Faisel, that those stations in California -- we show 1,200 of them. We own only a part of those, and other people on the other part. They just happened to brand them through us. So there's a distinction there.

Faisel Khan - *Citigroup - Analyst*

Thanks.

Sam Ramraj - *Tesoro Corporation - VP IR*

Neil?

Neil Mehta - *Goldman Sachs - Analyst*

Neil Mehta, Goldman Sachs. First question is around dividend growth. You talked through your dividend strategy here. What are you solving for, ultimately? Is it the yield? Is it to be competitive from a payout perspective? And how do you think about dividend growth on a go-forward basis? You had a big raise earlier this year, right?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Where we are in the growth cycle of the Company -- we have been increasing the dividend substantially. And just when we get to the yields of the industry, we are growing through it. So as we've talked through it with our directors and leadership team, we think continuing to grow dividends commensurate with the business growth and continuing to grow the payout ratio; and ultimately, one day, that may translate into yield. But it's hard to look at yield as one metric. So it's really about growth in the dividend. But it's also within this capital structure framework that we talked about of also being able to buy back shares at the same time.

Neil Mehta - *Goldman Sachs - Analyst*

And Greg, last year you provided differential assumptions in the slide deck for Brent A&S and Brent Bakken and Brent, WTI. This year, we get the Tesoro index. But could you talk about just how you are thinking about the differentials? Our framework -- and I think it was your Company's, as well -- historically was to look at marginal costs of transportation. But the market is evolving in terms of thinking around these differentials. Any perspective on the key components of the differentials would be helpful.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

The differentials that are important to us -- if you look at where they shake out for 2015 is how we see them next year. We still believe that incremental movement out by transportation will set the differential. I think in this case, in Bakken this year, you just had some unusual things happening. And you have people that have commitments that are moving stuff out in there. But I think, over time, they will still be driven by that incremental cost to move the barrel out of there. So we see them fairly tight again next year, versus how they were this year.

Neil Mehta - *Goldman Sachs - Analyst*

Last question for me is just to close the loop on the M&A point. Greg, you've made no secret that the Mid-Continent is interesting for the Company as a place to expand. In a world where differentials are tighter, is the Mid-Continent still the right place to grow? And as you think about M&A, are there going to be opportunities -- in your view here, in the next couple of years, either on asset or a company level -- [the floor is]? Or will you have to go after it, if that makes sense?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

So we have always dated our geographic preference for the company, primarily driven by our business model to be highly integrated. So it's kind of -- if you have that type of a business model, it somewhat takes you out of the Gulf Coast and other parts of the country. So we believe -- because that's what we believe we can execute extremely well and capture value. But that gets you into the Mid-Continent with our strong West Coast position. So that geographic area has always been our favored place to do business.

And with the changing dynamics for crude differentials, and even maybe what you think on gasoline prices in the Mid-Continent with some of the things going on there, I think we factor all those into anything that we would look at and take a view on it. But I think at the end of the day, Neil, it's going to be driven by if there is an opportunity for the Company and if it fits and meets our criteria strategically, how do we extract value from that asset, or group of assets, or company, whatever it may be? So we have to look at them all on an individual basis. And I think you have to make them happen yourself.

Unidentified Audience Member

Just on the theme of integration, does Vancouver Energy underpin any of the other Pacific Northwest capital projects, the isomerization unit and the MX? Do you need those light crude volumes into those units to produce --?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

No.

Unidentified Audience Member

Okay.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Not at all.

Unidentified Audience Member

Is it the other way around? Does the uplift from those units pay for the railroad costs for Vancouver Energy?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

No, not necessarily. It's pretty much -- it's the crude supply and the advantage, the real advantage of being able to get Bakken crude there is in the yield. But for the projects that we are talking about, it really has no impact on them.

Unidentified Audience Member

Okay. And then this is a follow-up to the earlier logistics M&A question about multiples and one-off opportunities, versus where the market structure is as a whole. Was the multiple for Great Northern Midstream the determining factor that caused the TSO Corp. to make the acquisition, as opposed to TLLP directly, as was the case with Rockies gas? Or are there other factors at work, beside just that price?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes. Let me build upon what Phil has said earlier, specifically around that business. So the map did a good job -- I don't know if you can see it. It's not in your book. But it basically extends our strong logistics position in North Dakota to the South. And it will tie in perfectly with Tesoro High Plains Pipeline. So that was one of the driving factors there that allowed us to do it. It also gives access to crude supply from areas where we haven't been buying crude oil for Tesoro, so that bringing it on to the system and that will do it. But it's almost a natural fit there.

So the multiple that maybe, I think, Jeff, you asked about and Phil talked about there -- I think this was a unique acquisition because of a number of factors there, because it happened to fit well into our business and probably the market environment that we are in today. But because of -- we just did a drop-down and funded a drop-down here within the last 30 days. And going back, and hopefully once we get through the regulatory approval for this, which could happen, say, in January or February, we would be closing on that. It's just easier to warehouse that investment into Tesoro.

And Phil was very clear that we will drop it down, at some point in time. It just offers some opportunities for us to how the business is operated. We can fit it into our system and enhance the overall operations of that business. It is very, very flexible.

And so we will get that done, and then just drop it down. So I would view the reason we did it in Tesoro was more of a warehousing of the investment and the fact that we just did a drop-down.

Sam Ramraj - *Tesoro Corporation - VP IR*

Bryan?

Bryan Zarahn - *Barclays Capital - Analyst*

Bryan Zarahn, Barclays. A few more logistics questions. Greg, you have been very supportive of the MLP, as evidenced by the last drop-down. And if we are still in this weak capital market environment, what type of support will you offer the MLP, whether it's on financing or multiples for drop-downs?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

The drop downs -- anything we do on drop downs -- they are market-based. I think Steven pointed that out. When we look at -- you have to look at each individual asset, at the generalized -- a specific multiple is not the right thing to do. So our recent drop-down was a lower multiple because we saw less upside in the business. And between the negotiation between the two companies, that's where the dust settled on doing it.

So we use a very market-driven approach to establish the drop-down value on a number of factors; have a very strong process, through our conflicts committee, with the logistics company and that. So the multiples will be where they shake out, market-driven multiples.

And then from the support standpoint, I think Steven said if we need the capital for the business and we are in a difficult market condition, then Tesoro would take the equity.

Steven Sterin - *Tesoro Corporation - EVP, CFO*

Yes, and as we look at the -- at least the next couple-year outlook, to a question asked earlier, the 50/50 on drop-downs -- that's a support. Right? Tesoro taking 50% equity. And then as we look at the -- and the drop-downs are about the same size as the organic investments. And as we think about the organic investments, roughly 50/50, that's debt and the ATM. So it really alleviates the need, right? This approach where the support comes in, to go out and be pushing units that will fund that growth. So the base plan, supported 50%, Tesoro take equity and 50% cash.

Bryan Zarahn - *Barclays Capital - Analyst*

And as you think about market multiples, how are they changing from Midstream assets, given almost all the buyers' cost of capital, including TLLP's, has risen?

Phil Anderson - *Tesoro Corporation - President Tesoro Logistics GP, LLC*

When we went through this with the committee on the recent drop, it really does come down to the asset. You see very attractive assets with lots of growth, and a high certainty going for high multiples. I think something traded, just in the last couple weeks, at some -- like nearly 20 times multiple out there. And we've seen some very high other multiple transactions this year. And then you see very stable assets, like the drop we just did, where there's no upside but there's great stability at a lower multiple.

And then you can take the other extreme, which is this one-off asset in the Bakken that on a stand-alone basis is otherwise isolated; unless you can fit it into something like our system, you go at a much lower multiple. So it's very asset-dependent, I think.

Bryan Zarahn - *Barclays Capital - Analyst*

And the last one for me -- appreciate the extended guidance. Any change to your distribution growth guidance in light of, again, the cost of capital environment? And how does that outlook, if at all, change, given your pursuit of investment-grade status for the MLP?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

So we see our distribution growth in the logistics Company for the next couple of years staying where it's been. We feel very comfortable with the work we have going on in that, that we will be able to sustain that. But at some point, with the size of the Company, the distribution growth is going to come down into the low teens. It will take probably a little bit of a step down here. But over the next couple of years or so, we are very comfortable with maintaining that 17% distribution growth.

Steven Sterin - *Tesoro Corporation - EVP, CFO*

And investment-grade requirements -- when you look at the plans and the funding strategy that I've just laid out, there's not a pull on that distribution from needing to get to investment-grade. We get there through the growth of the business.

Brad Heffern - *RBC Capital Markets - Analyst*

Brad Heffern, RBC. Greg, just going back to your comments earlier on gasoline demand, there's a thesis out there that the California market, given the growth we've seen of late, is going to get structurally tighter and tighter. Then maybe things start to look a lot more like 2015 than they do 2014. I'm curious if you subscribe to that viewpoint. And when I ask the question, I'm thinking about in the context of the sometimes scary legislative proposals like AB 350.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes. From just the fundamentals of PADD V, when you look at the entire West Coast with where demand is now versus where it was, especially coming out of the financial crisis, there's no question the demand has strengthened. You look at the capacity to produce gasoline on the West Coast and the need to run at higher utilization rates, we believe that's all supportive to a favorable margin environment. So those factors have built up over time. And that's why earlier, when we talked about the index, and we said we see the index up $1.50 to $2 versus 2014 -- it's based upon that view of California.

On 350, Keith, do you want to talk about AB 350?

Keith Casey - *Tesoro Corporation - EVP Operations*

I just want to make sure I clarify. Are you talking SB 350, that --.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Yes, AB, not (multiple speakers) --

Keith Casey - *Tesoro Corporation - EVP Operations*

Yes, yes, or AB 32 is a [low call reference fish netter].

Brad Heffern - *RBC Capital Markets - Analyst*

So I'm talking about the proposal that didn't make it through (multiple speakers) 50% decline.

Keith Casey - *Tesoro Corporation - EVP Operations*

I want to clarify. So there's no doubt that California will continue to be in that lead position about climate change and some of the environmental things. And I'll just reiterate that that's really important with the shared value approach we have taken on our projects. Greg talked about over 300,000 tons of CO2 reduction through our integration and compliance project, and even the substantial emissions reductions capable through Vancouver Energy.

And so we are positioning ourselves, and our aspiration within that shared value is to be a trusted voice in the industry. So we do want to continue to meet the customers' demands. And we want to do that in the most responsible fashion, and take advantage of those opportunities through reduced footprint and improving the environment. And that's given us a differential access for these growth projects.

Sam Ramraj - *Tesoro Corporation - VP IR*

We have time for one last question. Please go ahead, sir.

Andy Burd - *JPMorgan - Analyst*

Andy Burd, JPMorgan. Logistics question: the terminal and transportation CapEx guidance -- $400 million to $600 million of [flat times] multiple -- roughly how much of that is Tesoro EBITDA that TSO will be paying TLLP? And assuming it's a high number, does that -- is it fair to state that you have high confidence in both the multiple, as well as the amount of spending that will occur by 2018 in the segment? And then I have a follow-up.

Phil Anderson - *Tesoro Corporation - President Tesoro Logistics GP, LLC*

It's probably about two-thirds Tesoro; one-third third-party EBITDA. But again, the other parties we deal with in our business are other large independent refiners and integrateds.

Andy Burd - *JPMorgan - Analyst*

And unlike the gathering, is it fair to assume that given the downstream, which is the nature of those assets, or the ramp-up would be fairly quick?

Phil Anderson - *Tesoro Corporation - President Tesoro Logistics GP, LLC*

Well, it takes a little longer to spend on those projects. But when you turn them on, they pretty much run right away.

Andy Burd - *JPMorgan - Analyst*

And then just a quick follow-up for the gathering and processing CapEx guidance. Any rough breakdown between Tesoro versus third parties, as well as Rockies natural gas versus Bakken crude gas?

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

Almost all of that is third-party.

Sam Ramraj - *Tesoro Corporation - VP IR*

At this point, we don't have any further time for questions.

I would like to turn it over to Greg for closing comments.

Greg Goff - *Tesoro Corporation - Chairman, President, CEO*

So thank you today for your time, and listening to the questions. I would also like to thank the members of management and our Board for being here today to help us lay out what we think are some pretty significant plans for the Company as we move forward. So thank you very much.
