

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Act of 1934

Date of Report (Date of earliest event reported) June 25, 1998

TESORO PETROLEUM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

1-3473

95-0862768

(State or other
jurisdiction of
incorporation)(Commission
File Number)(IRS Employer
Identification No.)

8700 Tesoro Drive, San Antonio, Texas

78217

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (210) 828-8484

Item 5. Other Events.

On June 25, 1998, Tesoro Petroleum Corporation (the "Company") entered into (a) an Underwriting Agreement with Lehman Brothers Inc. and Howard, Weil, Labouisse, Friedrichs Incorporated, pursuant to which the Company issued 9,000,000 Premium Income Equity Securities ("PIES"), each of which represents one one-hundredth of a share of Mandatorily Convertible Preferred Stock of the Company deposited with The Bank of New York, and (ii) an Underwriting Agreement with Lehman Brothers Inc., CIBC Oppenheimer, Credit Suisse First Boston, Merrill Lynch & Co. and Salomon Smith Barney for 5,000,000 shares of Common Stock of the Company. The proceeds of the issuance of the PIES and Common Stock, together with borrowings under the Company's senior credit facility, will be used to fund the cash purchase price of the acquisition of Shell Anacortes Refining Company, to refinance the Company's interim credit facility (a portion of which was used to fund the cash purchase price of the acquisition of the Company's Hawaii operations), to pay certain fees and expenses and for general corporate purposes (including working capital requirements and capital expenditures).

Item 7. Financial Statements and Exhibits.

(c) Exhibits.

- Exhibit 1.1 Premium Income Equity Securities Underwriting Agreement dated June 25, 1998.
- Exhibit 1.2 Common Stock Underwriting Agreement dated June 25, 1998.
- Exhibit 4.1 Certificate of Designation related to the Mandatorily Convertible Preferred Stock.
- Exhibit 4.2 Deposit Agreement among the Company, The Bank of New York and the holders from time to time of depository receipts executed and delivered thereunder.
- Exhibit 4.3 Form of depository receipt evidencing ownership of Premium Income Equity Securities (filed as a part of Exhibit 4.2 hereof).
- Exhibit 5.1 Opinion of Fulbright & Jaworski L.L.P.
- Exhibit 23.1 Consent of Fulbright & Jaworski L.L.P. (included in Exhibit 5.1).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TESORO PETROLEUM CORPORATION

By: /s/ James C. Reed, Jr.

James C. Reed, Jr.
Executive Vice President,
General Counsel and Secretary

DATE: July 1, 1998

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EXHIBIT INDEX

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9,000,000 PREMIUM INCOME EQUITY SECURITIES (SM) ("PIES (SM) ")

TESORO PETROLEUM CORPORATION

CONSISTING OF DEPOSITARY SHARES, EACH REPRESENTING ONE ONE-HUNDREDTH OF A
SHARE OF THE 7 1/4% MANDATORILY CONVERTIBLE PREFERRED STOCK

UNDERWRITING AGREEMENT

June 25, 1998

LEHMAN BROTHERS INC.
HOWARD, WEIL, LABOUISSIE, FRIEDRICHS INCORPORATED
c/o Lehman Brothers Inc.
Three World Financial Center
New York, New York 10285

Ladies and Gentlemen:

Tesoro Petroleum Corporation, a Delaware corporation (the "Company"), proposes to sell to Lehman Brothers Inc. and Howard, Weil, Labouissie, Friedrichs Incorporated, the several underwriters (collectively, the "Underwriters"), and the Underwriters propose, severally and not jointly, to purchase 9,000,000 Premium Income Equity Securities, or "PIES" (the "Firm Securities"), consisting of depositary shares, each representing one one-hundredth of a share of the Company's 7 1/4% mandatorily convertible preferred stock (the "Mandatorily Convertible Preferred Stock"). In addition, the Company proposes to grant to the Underwriters an option to purchase up to an additional 1,350,000 PIES on the terms and for the purposes set forth in Section 2 (the "Option Securities"). The Firm Securities and the Option Securities, if purchased, are hereinafter collectively called the "Securities." This is to confirm the agreement concerning the purchase of the Securities from the Company by the Underwriters.

The Securities are being issued and sold in connection with the acquisition (the "Hawaii Acquisition") of BHP Petroleum Americas Refining Inc. and BHP Petroleum South Pacific Inc. (together, "BHP Hawaii") and the proposed acquisition (the "Washington Acquisition," and together with the Hawaii Acquisition, the "Acquisitions") of Shell Anacortes Refining Company ("Shell Washington") by the Company. Concurrently with the offering of the Securities (the "PIES Offering"), the Company is offering 5,000,000 shares of the Company's common stock, par value \$0.16 2/3 per share (the "Common Stock"), with gross proceeds of \$79.7 million (excluding any proceeds from the exercise of over-allotment options granted to the underwriters of the Common Stock). The Company is also proposing to offer \$300 million in aggregate principal amount of its Senior Subordinated Notes (the "Notes"). The closing of the PIES Offering is not conditioned upon the closings of the offerings of Common Stock (the "Common Stock Offering") or the Notes (the

"Notes Offering" and together with the Common Stock Offering and PIES Offering, the "Offerings"), nor is the closing of any of the Offerings conditioned upon the closing of the Washington Acquisition. The net proceeds from the Offerings, together with borrowing under the Company's Third Amended and Restated Credit Facility (the "Senior Credit Facility"), will be used to fund the cash purchase price of the Washington Acquisition, to refinance the Company's Second Amended and Restated Credit Facility (the "Interim Credit Facility") (a portion of which was used to finance the cash purchase price of the Hawaii Acquisition), to pay certain fees and expenses related to the Transactions (as defined below) and, to the extent not used, for general corporate purposes (including working capital requirements and capital expenditures).

The (i) stock purchase agreement entered into by the Company in connection with the Washington Acquisition (the "Washington Agreement") and the Senior Credit Facility, (ii) the underwriting agreement entered into in connection with the Common Stock Offering and (iii) the purchase agreement, registration rights agreement, indenture, Notes and subsidiary guarantees thereof entered into in connection with the Notes Offering are hereinafter sometimes collectively referred to as the "Transaction Documents." The Offerings, the Acquisitions and the closing of the Senior Credit Facility are hereinafter sometimes referred to collectively as the "Transactions."

SECTION 1. Representations, Warranties and Agreements of the Company.

The Company represents and warrants to, and agrees with, the Underwriters that as of the date hereof:

(a) A registration statement on Form S-3 (file number 333-51789), and amendments thereto, with respect to the Securities, the Mandatorily Convertible Preferred Stock and the Common Stock has (i) been prepared by the Company in conformity in all material respects with the requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") thereunder, (ii) been filed with the Commission under the Securities Act and (iii) become effective under the Securities Act. Such registration statement, as amended as of the date of this Agreement, meets the requirements set forth in Rule 415(a)(1)(x) under the Act and complies in all material respects with said Rule. Copies of such registration statement and amendments thereto have been delivered by the Company to you as the Underwriters. Upon your written request, but not without your agreement, the Company will also file a Rule 462(b) Registration Statement in accordance with Rule 462(b). As used in this Agreement, "Effective Time" means the date and the time as of which such registration statement, the most recent post-effective amendment thereto, if any, or any Rule 462(b) Registration Statement became or becomes effective; "Effective Date" means the date of the Effective Time; "Preliminary Prospectus" means each prospectus included in such registration statement, or amendments thereof, including without limitation the preliminary prospectus supplement, dated June 5, 1998 (the "Preliminary Prospectus Supplement") relating to the Securities filed with the Commission pursuant to Rule 424(b)(5) of the Rules and Regulations, through the date of the Preliminary Prospectus

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Supplement; "Registration Statement" means such registration statement, as amended at the Effective Time, including any documents incorporated by reference therein at such time and all information contained in the final prospectus relating to the Securities filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations in accordance with Section 5(a) hereof and deemed to be a part of the registration statement as of the Effective Time pursuant to paragraph (b) of Rule 430A of the Rules and Regulations and, in the event any Rule 462(b) Registration Statement becomes effective prior to the First Delivery Date (as hereinafter defined), also means such registration statement as so amended, unless the context otherwise requires; "Prospectus" means the Prospectus included in the Registration Statement at the Effective Time, including without limitation the final prospectus supplement, dated June 26, 1998, relating to the Securities, as first filed with the Commission pursuant to paragraph (2) or (5) of Rule 424(b) of the Rules and Regulations; and "Rule 462(b) Registration Statement" means the registration statement and any amendments thereto filed pursuant to Rule 462(b) of the Rules and Regulations relating to the offering covered by the initial Registration Statement. Reference made herein to any Preliminary Prospectus or to the Prospectus shall be deemed to refer to and include any documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Securities Act, as of the date of such Preliminary Prospectus or the Prospectus, as the case may be. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

(b) The Registration Statement conforms, and the Prospectus, any further amendments or supplements to the Registration Statement or the

Prospectus and any Rule 462(b) Registration Statement will, when they become effective or are filed with the Commission, as the case may be, conform in all material respects to the requirements of the Securities Act and the Rules and Regulations and do not and will not, as of the applicable Effective Time (as to the Registration Statement and any amendment thereto) and as of the applicable filing date (as to the Prospectus and any amendment or supplement thereto) contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided that no representation or warranty is made as to information contained in or omitted from the Registration Statement or the Prospectus in reliance upon and in conformity with written information furnished to the Company through the Underwriters by or on behalf of any Underwriter specifically for inclusion therein.

(c) The documents incorporated by reference in the Preliminary Prospectus and the Prospectus when they became effective or were filed with the Commission, conformed in all material respects to the requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Commission thereunder, and none of such documents, when read together with the other information in the Prospectus, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Prospectus when such documents became effective or are filed with the Commission, as the case may be, will conform in all material respects to requirements of the Exchange Act and the rules and regulations of the Commission thereunder, and none of such documents, when read together with

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the other information in the Prospectus, will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(d) The Company is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware with full corporate power and authority to own, lease and operate its properties and conduct its business as described in the Prospectus, and is duly qualified and registered as a foreign corporation for the transaction of business and is in good standing in each jurisdiction in which the character of the business conducted by it or the location of the properties owned or leased by it make such qualification or registration necessary (except where the failure to so qualify or register would not have a Material Adverse Effect (as defined below)). The Company has an authorized capitalization as set forth under the caption "Capitalization" in the Prospectus. On the date hereof and on the First Delivery Date all of the issued and outstanding shares of capital stock of the Company (including the shares of Common Stock to be issued in the Common Stock Offering) have been duly authorized and will be validly issued and fully paid and nonassessable and will conform to the description thereof contained in or incorporated by reference in the Prospectus. As used herein, "Material Adverse Effect" means a material adverse effect on the condition (financial or otherwise), results of operations, business, earnings or prospects of the Company and the Subsidiaries (as defined below), taken as a whole.

(e) The unissued Securities to be issued and sold by the Company to the Underwriters have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued, fully paid and nonassessable. The unissued shares of Mandatorily Convertible Preferred Stock to be issued in exchange by the Company to Bank of New York, as depositary with respect thereto (the "Depositary") under the deposit agreement, dated the First Delivery Date, between the Company and the Depositary (the "Deposit Agreement") have been duly and validly authorized and, when issued and exchanged for depositary receipts therefor as provided in the Deposit Agreement, will be duly and validly issued, fully paid and nonassessable. The shares of Common Stock issuable upon the conversion of the Mandatorily Convertible Preferred Stock, have been duly and validly authorized and reserved for issuance, and upon such conversion, will be duly and validly

issued, fully paid and nonassessable.

(f) Schedule II hereto is a complete and accurate schedule of the names of all corporations, partnerships and joint ventures (the "Subsidiaries") which constitute "subsidiaries," as such term is defined in Rule 405 of the rules and regulations of the Commission under the Securities Act (collectively with the rules and regulations of the Commission under the Exchange Act, the "Rules and Regulations"). Other than the Subsidiaries listed on Schedule II, no corporation, partnership or other entity in which the Company has an equity interest constitutes a "subsidiary" as defined in Rule 405 of the Rules and Regulations. Each Subsidiary is duly organized, validly existing and in good standing in the jurisdiction of its incorporation or formation, as the case may be, with full corporate or other power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus. Each Subsidiary is duly qualified and registered

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as a foreign corporation or limited partnership, as the case may be, for the transaction of business and is in good standing in each jurisdiction in which the character of the business conducted by it or the location of the properties owned or leased by it make such qualification or registration unnecessary, save where the failure to so qualify or be in good standing as a foreign corporation or limited partnership, as the case may be, would not have a Material Adverse Effect.

(g) All of the issued and outstanding shares of capital stock of each of the Subsidiaries that is a corporation have been duly authorized and validly issued, are fully paid and nonassessable, and are owned by the Company directly or indirectly, free and clear of any lien, adverse claim, security interest or other encumbrance (a "Lien"), except as arising from the Interim Credit Facility and, upon its execution, the Senior Credit Facility or as described in the Prospectus. All outstanding equity interests in each Subsidiary that is not a corporation have been duly authorized and validly issued and are owned by the Company directly or indirectly, free and clear of any Lien, except as arising from the Interim Credit Facility and, upon its execution, Senior Credit Facility or as described in the Prospectus. Except as disclosed in the Prospectus and as outstanding under employee benefit plans of the Company, there are no outstanding subscriptions, rights (preemptive or other), warrants, calls, commitments of sale or options to acquire, or instruments convertible into or exchangeable for, nor any restriction on the voting or transfer of, any capital stock or other equity interest of the Company or any Subsidiary;

(h) The Company and each of the Subsidiaries have all requisite power and authority to execute, deliver and perform their respective obligations under this Agreement, the Deposit Agreement and each of the Transaction Documents, to which they may respectively be a party, and to consummate the transactions contemplated hereby and thereby, including, without limitation, the power and authority to issue, sell and deliver the Securities as provided herein and therein, to consummate the exchange of the Mandatorily Convertible Preferred Stock for depositary receipts by the Depositary under the terms of the Deposit Agreement and to consummate the Transactions.

(i) This Agreement has been duly and validly authorized, executed and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and subject to the applicability of general principles of equity, and except as rights to indemnity and contribution hereunder and thereunder may be limited by Federal or state securities laws or principles of public policy.

(j) The Deposit Agreement has been duly authorized by the Company, and on the First Delivery Date will have been validly executed and delivered by the Company. When the Deposit Agreement has been executed and delivered by the Company, the Deposit Agreement will constitute a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by bankruptcy,

insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and to

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general equity principles. The Prospectus contains and accurate summary, in all material respects, of the terms of the Deposit Agreement.

(k) The Washington Agreement has been duly authorized, validly executed and delivered by the Company. The Washington Agreement constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and to general equity principles.

(l) The Senior Credit Facility has been duly authorized by the Company and, upon execution thereby, will have been validly executed and delivered by the Company and the Subsidiaries party thereto. When the Senior Credit Facility has been duly executed and delivered by the Company and each of such Subsidiaries, the Senior Credit Facility will constitute a valid and binding agreement of the Company and each of such Subsidiaries, enforceable against the Company and each of such Subsidiaries in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and to general equity principles. The Prospectus contains an accurate summary, in all material respects, of the terms of the Senior Credit Facility.

(m) The execution, delivery and performance of this Agreement and the Deposit Agreement by the Company and the Transaction Documents by the Company and the Subsidiaries party thereto, compliance by the Company and each of such Subsidiaries with all the provisions hereof and thereof, the issuance and sale of the Securities by the Company, the exchange of the Mandatorily Convertible Preferred Stock for depositary receipts by the Depositary and the consummation by the Company and such Subsidiaries of the transactions contemplated hereby and thereby, including the Transactions and as described in the Prospectus under the caption "Use of Proceeds," (i) will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary is bound or to which any of the properties or assets of the Company or any Subsidiary is subject, (ii) will not result in any violation of the provisions of the charter, by-laws or other organizational documents of the Company or any Subsidiary or (iii) will not result in any violation of the provisions of any law or statute or any order, rule, regulation, judgment or decree of any court or governmental agency or body having jurisdiction over the Company or any Subsidiary or any of their respective properties or assets, or (iv) result in the imposition or creation of (or the obligation to create or impose) a Lien under any agreement or instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary or their respective properties or assets is bound, except in the case of clauses (i), (iii) and (iv) for such conflicts, breaches, defaults, violations or Liens which individually or in the aggregate would not result in a Material Adverse Effect. Except for such consents, approvals, authorizations, other orders, filings, qualifications or registrations (i) as have been obtained, (ii) as may be required under applicable state securities or Blue Sky laws of various jurisdictions in connection with the issuance, sale and delivery of the Securities, (iii) as may be required in connection with the Washington Acquisition, (iv) as may

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be required in the perfection of liens in connection with the consummation of

the Transactions and (v) which the failure to obtain would not result in a Material Adverse Effect, no consent, approval, authorization, or order of or filing, qualification or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement, the Deposit Agreement or the Transaction Documents by the Company and each of the Subsidiaries party thereto, compliance by the Company and each of the Subsidiaries party thereto with all the provisions hereof and thereof, the issuance and sale of the Securities by the Company, the exchange of the Mandatorily Convertible Preferred Stock for depositary receipts by the Depositary and the consummation of the transactions contemplated hereby and thereby, including the Transactions and as described in the Prospectus under the caption "Use of Proceeds."

(n) Neither the Company nor any Subsidiaries has sustained, since the date of the latest quarterly financial statements included in the Prospectus, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth in the Prospectus, except losses or interferences which do not, individually or in the aggregate, have a Material Adverse Effect; and, since such date, there has not been any material change in the capital stock or other equity interest or long-term debt or short-term debt of the Company or any Subsidiaries or any change having a Material Adverse Effect, or any development involving a prospective material adverse change, in or affecting the general affairs, management, consolidated financial position, stockholders' equity or results of operations of the Company and the Subsidiaries, otherwise than as set forth or contemplated in the Prospectus; and, since such date, except as otherwise disclosed in the Prospectus, the Company has not (i) issued or granted any securities, other than pursuant to Company employee benefit plans or (ii) declared or paid any dividend on its capital stock.

(o) The historical consolidated financial statements (including the related notes and supporting schedules) of the Company, and to the Company's knowledge, BHP Hawaii and Shell Washington, which appear in the Preliminary Prospectus and the Prospectus comply as to form in all material respects with the applicable accounting requirements of Securities Act, the Exchange Act, and the Rules and Regulations, present fairly in all material respects the consolidated financial position and results of operations of the entities purported to be shown thereby, at the dates and for the periods indicated, and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved except as noted therein. The pro forma financial statements included in the Preliminary Prospectus and the Prospectus present fairly in all material respects the historical and proposed transactions contemplated by this Agreement and in the Preliminary Prospectus and the Prospectus; and such pro forma financial statements comply as to form in all material respects with the applicable accounting requirements of the Securities Act, the Exchange Act and the Rules and Regulations, have been prepared on a basis consistent with the historical consolidated financial statements of the Company, and to the Company's knowledge, BHP Hawaii and Shell Washington, give effect to assumptions used in the preparation thereof on a reasonable basis. The other financial and statistical information and operating data of the Company, and to the Company's knowledge BHP Hawaii and Shell

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Washington included in the Preliminary Prospectus and the Prospectus, historical and pro forma, is in all material respects accurately presented and prepared on a basis consistent with the financial statements, in all material respects, included in the Preliminary Prospectus and the Prospectus and the books and records of the Company, and to the Company's knowledge, the books and records of BHP Hawaii and Shell Washington.

(p) Except for the Registration Rights Agreement entered into by the Company and the Subsidiaries party thereto in connection with the Notes Offering, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company, owned or to be owned by such person or to require the

Company to include such securities with any securities being registered pursuant to any registration statement filed by the Company under the Securities Act.

(q) Deloitte & Touche LLP, and to the Company's knowledge, Arthur Andersen LLP and Price Waterhouse LLP, who have certified certain financial statements of the Company and its Subsidiaries, BHP Hawaii and Shell Washington, respectively, whose reports are included or incorporated by reference in the Prospectus and who have delivered the initial letters referred to in Section 7(g) hereof, are independent public accountants as required by the Securities Act and the Rules and Regulations.

(r) Other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any Subsidiary is a party or to which any of their respective properties or assets is subject which (i) could reasonable be expected to have a Material Adverse Effect or (ii) could materially and adversely affect the consummation by the Company of its obligations pursuant to this Agreement, the Deposit Agreement or the Transaction Documents; and to the Company's knowledge, no such proceedings are threatened or contemplated by government authorities or threatened by others.

(s) The Company and each of the Subsidiaries has such permits, licenses, franchises and authorizations of governmental or regulatory authorities ("permits") as are necessary to own its respective properties and to conduct its business in the manner described in the Prospectus subject in each case to such qualifications as may be set forth in the Prospectus and except where the failure to have such permits would not have a Material Adverse Effect; the Company and each of the Subsidiaries has fulfilled and performed in all material respects all of its current obligations with respect to such permits and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other material impairment of the rights of the holder of any such permits, subject in each case to such qualifications as may be set forth in the Prospectus and except where the failure so to fulfill or perform or the occurrence of such an event would not have a Material Adverse Effect; and, except as described in the Prospectus, none of such permits contains any restriction that is materially burdensome to the Company and the Subsidiaries, taken as a whole.

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(t) The Company and each of the Subsidiaries owns or possesses adequate rights to use all material patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights and licenses necessary for the conduct of their respective businesses, except where the failure to have such permits would not have a Material Adverse Effect, and have no reason to believe that the conduct of their respective businesses will conflict with, and have not received any notice of any claim of conflict with, any such rights of others.

(u) With the exception of producing oil and gas properties and gas gathering properties (the "Oil and Gas Properties"), the Company and each of the Subsidiaries has good and indefeasible title in fee simple to all real property and good and defensible title to all personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially adversely affect the value of such property or interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries; and with the exception of the Oil and Gas Properties, all real property, buildings and vessels held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases, with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property, buildings and vessels by the Company and the Subsidiaries.

(v) The Company and each of the Subsidiaries has good and defensible title to its Oil and Gas Properties, free and clear of all liens, encumbrances and defects, except (a) those described in the Preliminary Prospectus and the Prospectus, (b) liens securing taxes and other governmental charges, or claims of materialmen, mechanics and similar persons, not yet due and payable, (c) liens and encumbrances under operating agreements, unitization and pooling agreements, and gas sales contracts, securing payment of amounts not

yet due and payable and of a scope and nature customary in the oil and gas industry and (d) liens, encumbrances and defects that do not in the aggregate materially affect the value of such Oil and Gas Properties or materially interfere with the use made or proposed to be made of such properties by the Company or any of the Subsidiaries. Except to the extent described in the Preliminary Prospectus and the Prospectus, the oil, gas and mineral leases, coal methane leases, options to lease, drilling concessions or other property interests therein held by the Company and each of the Subsidiaries reflects in all material respects the right of the Company and its Subsidiaries, as the case may be, to explore or receive production from the undeveloped properties described in the Preliminary Prospectus and the Prospectus, and the Company and each of the Subsidiaries have exercised reasonable diligence with respect to acquiring or otherwise procuring such leases, options to lease, drilling concessions and other property interests.

(w) No labor disturbance by the employees of the Company or any of the Subsidiaries exists or, to the knowledge of the Company, is imminent which might be expected to have a Material Adverse Effect; except as disclosed in the Prospectus, neither the Company nor any of the Subsidiaries is party to a collective bargaining agreement; and there are no significant unfair

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labor practice complaints pending against the Company or any of the Subsidiaries or, to the best of the Company's knowledge, threatened against any of them.

(x) The Company and each of the Subsidiaries is in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"); no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company or any of the Subsidiaries would have any liability; neither the Company nor any of the Subsidiaries has incurred and neither do any of them expect to incur liability under (i) title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Internal Revenue code of 1985, as amended, including the regulations and published interpretations thereunder (the "Code"); and each "pension plan" for which the Company or any Subsidiary would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(y) The Company and each of the Subsidiaries has filed, and as of the First Delivery Date will have filed, all federal, state, local and foreign income and franchise tax returns required to be filed through the date hereof and has paid all taxes due thereon, and no tax deficiency has been determined adversely to the Company or any of the Subsidiaries which has had (nor does the Company have any knowledge of any tax deficiency which, if determined adversely to the Company or any of the Subsidiaries, might have) a Material Adverse Effect.

(z) The Company and each of the Subsidiaries (i) makes and keeps accurate books and records and (ii) maintains internal accounting controls which provide reasonable assurance that (A) transactions are executed in accordance with management's authorization, (B) transactions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its assets, (C) access to its assets is permitted only in accordance with management's authorization and (D) the reported accountability for its assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any difference.

(aa) Except as described in the Preliminary Prospectus and the Prospectus and except such matters as would not, singly or in the aggregate, result in a Material Adverse Effect, (A) neither the Company nor any of the Subsidiaries is in violation of any federal, state, local or foreign statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or administrative order, consent, decree or judgment thereof, including any judicial or administrative order, consent, decree or judgment relating to pollution or protection of human health, the environment (including, without

limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum or petroleum products (collectively, "Hazardous Materials") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, "Environmental Laws"), (B) the Company and each of the

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Subsidiaries has all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or, to the knowledge of the Company, threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company or any of the Subsidiaries and (D) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company or any of the Subsidiaries relating to Hazardous Materials or Environmental Laws.

(bb) The Company is not, and upon the issuance and sale of the Securities as herein contemplated, the consummation of the exchange of the Mandatorily Convertible Preferred Stock for depositary receipts by the Depositary and the application of the net proceeds therefrom as described under the caption "Use of Proceeds" in the Prospectus will not be an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

(cc) The conditions for the use of Form S-3, as set forth in the General Instructions thereto, have been satisfied.

(dd) The statements set forth in the Prospectus under the captions "Prospectus Summary--The Transactions--The Acquisitions," "Business--Government Regulation and Legislation," "Description of Indebtedness," "Description of Capital Stock," "Description of PIES" and "Description of Depositary Arrangements" insofar as such statements purport to summarize the provisions of the documents or agreements referred to therein, matters of law or legal conclusions or federal statute, laws or regulations, are accurate and fairly present the information required to be shown.

(ee) The information supplied by the Company to the independent petroleum engineering consultants for the Company for purposes of preparing the reserve reports and estimates of such consultants incorporated by reference in the Preliminary Prospectus and the Prospectus, including, without limitation, production, costs of operation and development, current prices for production, agreements relating to current and future operations and sales of production, was true and correct in all material respects on the date supplied and was prepared in accordance with customary industry practices; and Netherland, Sewell & Associates, Inc., independent petroleum engineers, who prepared estimates of the extent and value of proved oil and natural gas reserves of the Company are independent with respect to the Company.

(ff) The Company and each of the Subsidiaries has complied with, and is and will be in compliance with, the provisions of that certain Florida act relating to disclosure of doing business with Cuba, codified as Section 517.075 of the Florida statutes, and the rules and regulations thereunder or is exempt therefrom.

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The Company acknowledges that the Underwriters and, for purposes of the opinions to be delivered to the Underwriters pursuant to Section 7 hereof, counsel to the Company and counsel to the Underwriters, will rely upon the accuracy and truth of the foregoing representations and hereby consents to such reliance. Each certificate signed by any officer of the Company and delivered to the Underwriters or counsel for the Underwriters shall be deemed to be a representation and warranty by the Company to the Underwriters as to the matters covered thereby.

SECTION 2. Purchase of the Securities by the Underwriters.

(a) On the basis of the representations and warranties contained in, and subject to the terms and conditions of, this Agreement, the Company agrees to sell 9,000,000 of the Firm Securities to the several Underwriters and each of the Underwriters, severally and not jointly, agrees to purchase the number of Firm Securities set opposite that Underwriter's name in Schedule I hereto.

(b) In addition, the Company grants to the Underwriters an option to purchase up to 1,350,000 of the Option Securities. Such option is granted solely for the purpose of covering over-allotments in the sale of Firm Securities and is exercisable as provided in Section 4 hereof. Option Securities shall be purchased severally and not jointly for the account of the Underwriters in proportion to the number of Firm Securities set opposite the name of such Underwriters in Schedule I hereto. The respective purchase obligations of each Underwriter with respect to the Option Securities shall be adjusted by the Underwriters so that no Underwriter shall be obligated to purchase Option Securities other than in amounts of 100 PIES. The price of both the Firm Securities and any Option Securities shall be \$15 15/16 per PIES.

(c) The Company shall not be obligated to deliver any of the Securities to be delivered on the First Delivery Date or the Second Delivery Date (as hereinafter defined), as the case may be, except upon payment for all the Securities to be purchased on such Delivery Date as provided herein.

SECTION 3. Offering of Securities by the Underwriters.

(a) Upon authorization by the Underwriters of the release of the Firm Securities, the several Underwriters propose to offer the Firm Securities for sale upon the terms and conditions set forth in the Prospectus.

(b) Each Underwriter agrees that it will not offer or sell any of the Securities outside of the United States and Canada.

SECTION 4. Delivery of and Payment for the Securities.

(a) Delivery of and payment for the Firm Securities shall be made at the offices of Andrews & Kurth, L.L.P., 600 Travis Street, Houston, Texas 77002, at 8:30 A.M., Houston time, on July 1, 1998, or at such other date or place as shall be determined by agreement between the Underwriters and the Company. This date and time are sometimes referred to herein as the "First Delivery Date." On the First Delivery Date, the Company shall deliver or cause to be delivered certificates representing the Firm Securities to the Underwriters for the account of each Underwriter against payment to or upon the order of the Company of the purchase price by wire transfer in immediately available funds. Time shall be of the essence (except that the Company will not be responsible for any delay resulting from any action or inaction of any Underwriter) and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligations of each Underwriter hereunder. Upon delivery, the Firm Securities shall be registered in such names and in such denominations as the Underwriters shall request in writing not less than two full business days prior to the First Delivery Date. For the purpose of expediting the checking and packaging of the certificates for the Firm Securities, the Company shall make the certificates representing the Firm

Securities available for inspection by the Underwriters in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the First Delivery Date.

(b) At any time on or before the thirtieth day after the date of this Agreement, the option granted in Section 2 may be exercised by written notice being given to the Company by the Underwriters. Such notice shall set forth the aggregate number of Option Securities as to which the option is being exercised, the names in which the Option Securities are to be registered, the denominations in which the Option Securities are to be issued and the date and time, as determined by the Underwriters, when the Option Securities are to be delivered; provided, however, that this date and time shall not be earlier than the First Delivery Date nor earlier than the second business day after the date on which the option shall have been exercised nor later than the third business day after the date on which the option shall have been exercised. The date and time the Option Securities are delivered are sometimes referred to as the "Second Delivery Date" and the First Delivery Date and the Second Delivery Date are sometimes each referred to as a "Delivery Date."

(c) Delivery of and payment for the Option Securities shall be made at the place specified in the first sentence of the first paragraph of this Section 4 (or at such other place as shall be determined by agreement between the Underwriters and the Company) at 8:30 A.M., Houston time, on the Second Delivery Date. On the Second Delivery Date, the Company shall deliver or cause to be delivered the certificates representing the Option Securities to the Underwriters for the account of each Underwriter against payment to or upon the order of the Company of the purchase price by wire transfer in immediately available funds. Time shall be of the essence (except that the Company will not be responsible for any delay resulting from any action or inaction of any Underwriter), and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligations of each Underwriter hereunder. Upon delivery, the Option Securities shall be registered in such names and in such denominations as the Underwriters shall request in the

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aforesaid written notice. For the purpose of expediting the checking and packaging of the certificates representing the Option Securities available for inspection by the Underwriters in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the Second Delivery Date.

(d) Since an affiliate of Lehman Brothers Inc. will receive in excess of 10% of the net proceeds of the Offerings, the PIES Offering is being made pursuant to the provisions of Rule 2710(c)(8) of the Conduct Rule of the National Association of Securities Dealers (the "Conduct Rules"). The Company hereby confirms its engagement of Howard, Weil, Labouisse, Friedrichs Incorporated as, and Howard, Weil, Labouisse, Friedrichs Incorporated, hereby confirms its agreement with the Company to render services as qualified independent underwriter within in the meaning of Rule 2720 of the Conduct Rules for the PIES Offering. Howard, Weil, Labouisse, Friedrichs Incorporated, solely in its capacity as qualified independent underwriter and not otherwise, is referred to herein as the "Independent Underwriter." It is understood and agreed by all parties hereto that the price at which the Securities are issued and sold is not higher than the price recommended by the Independent Underwriter. Howard, Weil, Labouisse, Friedrichs Incorporated hereby confirms that it meets the requirements for serving as a qualified independent underwriter within the meaning of Rule 2720 of the Conduct Rules.

SECTION 5. Further Agreements of the Company.

The Company further agrees:

(a) To prepare the Prospectus in a form approved by the Underwriters and to file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than Commission's close of business on the second business day following the execution and delivery of this Agreement or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the

Securities Act; to make no further amendment or any supplement to the Registration Statement or to the Prospectus and to file no Rule 462(b) Registration Statement except as permitted herein; to advise the Underwriters , promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish the Underwriters with copies thereof; upon your request, to cause the Rule 462(b) Registration Statement, properly completed, to be filed with the Commission pursuant to Rule 462(b) and to provide evidence satisfactory to the Underwriters of such filing; to advise the Underwriters , promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspending any such qualification, to use promptly its reasonable best efforts to obtain its withdrawal;

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(b) To furnish reasonably promptly to each of the Underwriters and to counsel for the Underwriters a signed copy of the Registration Statement as originally filed with the Commission, each amendment thereto and any Rule 462(b) Registration Statement filed with the Commission, including all consents and exhibits filed therewith;

(c) To deliver promptly to the Underwriters such number of the following documents as the Underwriters shall reasonably request: (i) conformed copies of the Registration Statement as originally filed with the Commission, each amendment thereto (in each case excluding exhibits other than this Agreement) and any Rule 462(b) Registration Statement, (ii) each Preliminary Prospectus, the Prospectus and any amended or supplemented Prospectus and (iii) any document incorporated by reference in the Prospectus (excluding exhibits thereto); and, if the delivery of a prospectus is required at any time after the Effective Time in connection with the offering or sale of the Securities or any other securities relating thereto and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary to amend or supplement the Prospectus or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Securities Act or the Exchange Act, to notify the Underwriters and, upon their request, to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as the Underwriters may from time to time reasonably request of an amended or supplemented Prospectus which will correct such statement or omission or effect such compliance;

(d) To file promptly with the Commission any amendment to the Registration Statement or the Prospectus or any supplement to the Prospectus that may, in the judgment of the Company or the Underwriters, be required by the Securities Act or requested by the Commission;

(e) Prior to filing with the Commission any amendment to the Registration Statement or supplement to the Prospectus, any document incorporated by reference in the Prospectus, any Prospectus pursuant to Rule 424 of the Rules and Regulations or any Rule 462(b) Registration Statement to furnish a copy thereof to the Underwriters and counsel for the Underwriters and obtain the consent of the Underwriters to the filing;

(f) The Company will make generally available to holders of its securities as soon as may be practicable an earnings statement (which need not be audited but shall be in reasonable detail) for a period of 12 months ended commencing after the Effective Date, and satisfying the provisions of

Section 11(a) of the Act (including Rule 158 of the Rules and Regulations).

(g) For a period of five years following the Effective Date, to furnish to the Underwriters copies of all materials furnished by the Company to its public shareholders and all public reports and all reports and financial statements furnished by the Company to the principal national securities exchange upon which the PIES may be listed pursuant to requirements of or

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agreements with such exchange or to the Commission pursuant to the Exchange Act or any rule or regulation of the Commission thereunder;

(h) Promptly from time to time to take such action as the Underwriters may reasonably request to qualify the Securities for offering and sale (or obtain an exemption from registration) under the securities laws of such jurisdictions as the Underwriters may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Securities; provided, however, that the Company shall not be required to qualify as a foreign corporation or a dealer in securities or to execute a general consent to service of process in any jurisdiction in any action other than one arising out of the offering or sale of the Securities;

(i) For a period of 90 days from the date of the Prospectus, not to, directly or indirectly, (A) offer for sale, sell, pledge or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any PIES or shares of Common Stock or any securities convertible into or exchangeable for PIES or Common Stock (other than the Securities, the Mandatorily Convertible Preferred Stock, the Common Stock issued in the Common Stock Offering and upon conversion of the Mandatorily Convertible Preferred Stock and the shares of Common Stock issued pursuant to employee benefit plans, qualified stock option plans or other employee compensation plans existing on the date hereof or pursuant to currently outstanding options, warrants or rights or upon conversion of the Convertible Subordinated Debentures of Coastwide Energy Services, Inc.) or (B) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of such securities, whether any such transaction described in clause (A) or (B) above is to be settled by delivery of PIES, shares of Common Stock or other securities, in cash or otherwise, in each case without the prior written consent of Lehman Brothers Inc.

(j) To take such steps as shall be necessary to ensure that neither the Company nor any Subsidiary of the Company shall become an "investment company" within the meaning of such term under the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder.

(k) To apply the net proceeds from the sale of the Notes as set forth under the caption "Use of Proceeds" in the Prospectus.

(l) To do all things required or necessary to be done or performed under this Agreement prior to such Delivery Date by such date and to satisfy the closing conditions set forth in Section 7 hereof.

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SECTION 6. Expenses.

Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, the Company agrees to pay or cause to be paid all reasonable expenses incident to the performance of the obligations of the Company under this Agreement, including: (i) the costs incident to the authorization, issuance, sale and delivery of the Securities and any taxes payable in that connection; (ii) fees, disbursements and expenses of counsel to the Company and accountants to Company in connection with the sale and delivery of the Securities, and all other fees and expenses in connection with the preparation, printing and filing under the Securities Act of the Registration Statement and any amendments and exhibits thereto (including financial statements), including the mailing and delivering of copies to the Underwriters and persons designated by them in the quantities specified; (iii) the costs of distributing the Registration Statement as originally filed and each amendment thereto and any post-effective amendments thereof (including, in each case, exhibits), any Preliminary Prospectus, the Prospectus and any amendment or supplement to the Prospectus or any document incorporated by reference therein, all as provided in this Agreement; (iv) the costs of producing and distributing this Agreement, the Deposit Agreement and any related documents in connection with the offering, purchase, sale and delivery of the Securities (v) listing or other fees incident to the inclusion of the Securities and the Common Stock issuable upon conversion of the Mandatorily Convertible Preferred Stock for listing on the New York Stock Exchange; (vi) the fees and expenses, if applicable, of qualifying the Securities under the securities laws of the several jurisdictions as provided in Section 5(h) and of preparing, printing and distributing a Blue Sky Memorandum (including reasonable related fees and expenses of counsel to the Underwriters in connection with such qualification and memorandum relating thereto); (vii) the fees and expenses of the Depositary (including reasonable related fees and expenses of counsel to the Depositary) and (viii) all other costs and expenses incident to the performance of the obligations of the Company or any of the Subsidiaries under this Agreement; provided that, except as provided in this Section 6 and in Section 11, the Underwriters shall pay their own costs and expenses, including the costs and expenses of their counsel, any transfer taxes on the Securities which they may sell and the expenses of advertising any offering of the Securities made by the Underwriters.

SECTION 7. Conditions to the Underwriters' Obligations.

The obligations of the Underwriters hereunder are subject to the accuracy, when made and on each Delivery Date, of the representations and warranties of the Company contained herein, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

(a) The Prospectus shall have been timely filed with the Commission in accordance with Section 5(a); no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion

of additional information in the Registration Statement or the Prospectus or otherwise shall have been complied with.

(b) No Underwriter shall have discovered and disclosed to the Company on or prior to such Delivery Date that the Registration Statement or the Prospectus or any amendment or supplement thereto contains an untrue statement of a fact which, in the opinion of Andrews & Kurth, L.L.P., counsel for the Underwriters, is material or omits to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement and the Prospectus, and all other legal matters relating to this Agreement and the transactions

contemplated hereby shall be reasonably satisfactory in all material respects to counsel for the Underwriters, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) The Prospectus shall have been printed and copies distributed to the Underwriters not later than 10:00 a.m., New York City time, on the day following the date of this Agreement or at such later date and time as to which the Underwriters may agree.

(e) The Underwriters shall have received from Fulbright & Jaworski L.L.P. their written opinion, as counsel to the Company, addressed to the Underwriters and dated such Delivery Date, in form and substance reasonably satisfactory to the Underwriters, to the effect set forth in Exhibit A hereto and to such further effect as counsel to the Underwriters may reasonably request.

(f) The Underwriters shall have received from James C. Reed, Jr., his written opinion, as General Counsel of the Company, addressed to the Underwriters and dated such Delivery Date, in form and substance reasonably satisfactory to the Underwriters, to the effect set forth in Exhibit B hereto and to such further effect as counsel to the Underwriters may reasonably request.

(g) At the time of execution of this Agreement, the Underwriters shall have received from each of Deloitte & Touche LLP, Arthur Andersen LLP and Price Waterhouse LLP a letter, in form and substance satisfactory to the Underwriters, addressed to the Underwriters and dated the date hereof, (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date hereof (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than five business days prior to the date hereof), the conclusions and findings of such firm with respect to the financial information, operating data and other matters ordinarily covered by accountants' "comfort letters" to underwriters, including the financial information contained or incorporated by reference in the Prospectus as identified by you.

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(h) With respect to the letters of Deloitte & Touche LLP, Arthur Andersen LLP and Price Waterhouse LLP referred to in the preceding paragraph and delivered to the Underwriters concurrently with the execution of this Agreement (the "initial letters"), the Company shall have furnished to the Underwriters letters (the "bring-down letters") of such accountants, addressed to the Underwriters and dated such Delivery Date, (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring-down letters (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than five business days prior to the date of the respective bring-down letter), the conclusions and findings of such firm with respect to the financial information, operating data and other matters covered by the respective initial letter and (iii) confirming in all material respects the conclusions and findings set forth in the respective initial letter.

(i) (A) At the time of execution of this Agreement, the Underwriters shall have received from Netherland, Sewell & Associates, Inc., independent petroleum engineers for the Company, a letter dated as of such date, in form and substance satisfactory to the Underwriters; and (B) on such Delivery Date, the Underwriters shall have received from Netherland, Sewell and Associates, Inc., independent petroleum engineers for the Company, a letter dated as of such Delivery Date, to the effect that they reaffirm the statements made in the letter referred to in clause (i) (A) above.

(j) The Company shall have furnished to the Underwriters a certificate, dated the such Delivery Date, of (i) the Chairman of the Board, President or a Vice President of the Company and (ii) the Treasurer or Chief Financial Officer of the Company stating that:

(i) The representations, warranties and agreements of the Company in Section 1 are true and correct as of such Delivery Date and the Company has complied with all its agreements contained herein;

(ii) (A) Neither the Company nor any of the Subsidiaries has sustained since the date of the latest quarterly financial statements included or incorporated by reference in the Preliminary Prospectus or the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Preliminary Prospectus or the Prospectus and (B) since such date there has not been any material change in the capital stock, long-term debt or short-term debt of the Company or any of the Subsidiaries or any material change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity, results of operations or prospects of the Company and the Subsidiaries, taken as a whole, otherwise than as set forth or contemplated in the Preliminary Prospectus or the Prospectus; and

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(iii) They have carefully examined the Registration Statement or the Prospectus and, in their opinion (A) the Registration Statement or the Prospectus, as of their respective dates, did not include any untrue statement of a material fact and did not omit to state any material fact necessary to make the statements therein, (in the case of the Prospectus, in the light of the circumstances under which they were made), not misleading, and (B) since the date of the Prospectus, no event has occurred which should have been set forth in a supplement or amendment to the Prospectus.

(iv) The Prospectus shall have been timely filed with the Commission in accordance with Section 5(a) of this Agreement; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission as of such Delivery Date; and any request of the Commission for inclusion of additional information in the Registration Statement or the Prospectus or otherwise shall have been complied with.

(k) (i) Neither the Company nor any of its Subsidiaries shall have sustained since the date of the latest audited financial statements included or incorporated by reference in the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus and (ii) since such date there shall not have been any material change in the capital stock, long-term debt or short-term debt of the Company or any of its Subsidiaries or any material change, or any development involving a prospective material change, in or affecting the general affairs, management, consolidated financial position, stockholders' equity or results of operations of the Company and its Subsidiaries taken as a whole, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of the Underwriters, so material and adverse as to make it impracticable or inadvisable to proceed with the offering or the delivery of the Securities on the terms and in the manner contemplated in the Prospectus.

(l) The Company shall have entered into the Deposit Agreement.

(m) Subsequent to the execution and delivery of this Agreement (i) no downgrading shall have occurred in the rating accorded the Company or any

of the Subsidiaries or any securities of the Company or any of the Subsidiaries by any "nationally recognized statistical rating organization," as that term is defined by the Commission for purposes of Rule 436(g)(2) of the Rules and Regulations and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Notes.

(n) The Underwriters shall have received from Andrews & Kurth L.L.P., counsel for the Underwriters, their opinion, dated such Delivery Date, with respect to such matters as the Underwriters may reasonably require, and the Company shall have furnished to such counsel such

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documents and information as they may reasonably request for the purpose of enabling them to pass upon such matters.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Underwriters.

SECTION 8. Indemnification and Contribution.

(a) The Company shall indemnify and hold harmless each Underwriter, its officers and employees and each person, if any, who controls any Underwriter within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of the Securities), to which that Underwriter, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, Registration Statement or the Prospectus or in any amendment or supplement thereto, (ii) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto, any material fact required to be stated therein or necessary to make the statements therein not misleading or (iii) any act or failure to act, or any alleged act or failure to act, by any Underwriter in connection with, or relating in any manner to, the Securities or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, damage, liability or action arising out of or based upon matters covered by clause (i) or (ii) above (provided that the Company shall not be liable in the case of any matter covered by this clause (iii) to the extent that it is determined in a final judgment by a court of competent jurisdiction that such loss, claim, damage, liability or action resulted directly from any such act or failure to act undertaken or omitted to be taken by such Underwriter through its gross negligence or willful misconduct), and shall reimburse each Underwriter and each officer, employee and controlling person promptly upon demand for any legal or other expenses reasonably incurred by that Underwriter, officer, employee or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any such amendment or supplement, in reliance upon and in conformity with the written information furnished to the Company by or on behalf of any Underwriter specifically for inclusion therein and described in Section 8(e); provided, further, that with respect to any such untrue statement or omission made in the Preliminary Prospectus, the indemnity agreement contained in this Section 8(a) shall not enure to the benefit of the Underwriter from whom the person asserting any such losses, claims, damages or liabilities purchased the Securities concerned if, to the extent that such sale was an initial sale by such Underwriter and any such loss claim, damage or liability of such Underwriter is a result of the fact that both (A) a copy of the Prospectus was not sent

or given to such person at or prior to the written confirmation of the sale of such Securities to such person, and (B) the untrue statement or omission in the Preliminary Prospectus was corrected in the Prospectus unless, in either case, such failure to deliver the Prospectus was a result of noncompliance by the Company with Section 5(c) hereof. The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any Underwriter or to any officer, employee or controlling person of any Underwriter.

In addition to and without limitation of the Company's obligation to indemnify Howard, Weil, Labouisse, Friedrichs Incorporated as an Underwriter, the Company also agrees to indemnify and hold harmless the Independent Underwriter and each person, if any, who controls the Independent Underwriters within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act from and against any and all loss, liability, claim, damage and expense whatsoever, as incurred, incurred as a result of the Independent Underwriter's participation as a "qualified independent underwriter" in connection with the PIES Offering.

(b) Each Underwriter, severally and not jointly, shall indemnify and hold harmless the Company and each person, if any, who controls the Company within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company, any such director, officer or employee, or any controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto or (ii) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto, any material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with the written information furnished to the Company by or on behalf of such Underwriter specifically for inclusion therein and described in Section 8(e), and shall reimburse the Company and any such director, officer or employee, or any such controlling person, for any legal or other expenses reasonably incurred by the Company or any such director, officer or employee, or any controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred. The foregoing indemnity agreement is in addition to any liability which any Underwriter may otherwise have to the Company or any such director, officer or employee, or any controlling person.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the claim or the commencement of that action; provided, however, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent it has been materially prejudiced by such failure and, provided further, that the failure to notify the indemnifying party shall not relieve it from any liability which it may

have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled

to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that the indemnified party shall have the right to employ counsel to represent all indemnified parties who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the indemnified parties against the indemnifying party under this Section 8 if, (i) the employment of such counsel shall have been authorized by the indemnifying party in connection with the defense of such action, (ii) the indemnifying party shall not have engaged counsel reasonably promptly to take charge of the defense of such action or (iii) counsel for any of the indemnified parties shall have reasonably concluded that there may be defenses available to the indemnified parties that are in addition to or in conflict with those available to the indemnifying party, and, in that event, the fees and expenses of such separate counsel shall be paid by the indemnifying party; provided, further, that in connection with any proceedings or related proceedings in the same jurisdiction, the indemnifying party shall not be liable for the legal fees and expenses of more than one separate firm of attorneys (in addition to any local counsel). No indemnifying party shall (i) without the prior written consent of the indemnified parties (which consent shall not be unreasonably withheld), settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding, or (ii) be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with its written consent or if there be a final judgment of the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss of liability by reason of such settlement or judgment.

(d) If the indemnification provided for in this Section 8 shall for any reason be unavailable to or insufficient to hold harmless an indemnified party under Section 8(a) or 8(b) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriters, on the other, from the offering of the Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, on the one hand, and the Underwriters on the other with respect to the statements or omissions which resulted in such loss,

claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the Underwriters on the other, with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Securities purchased under this Agreement (before deducting expenses) received by the Company, on the one hand, and the total underwriting discounts and commissions received by the Underwriters with respect to the Securities purchased under this Agreement, on the other hand, bear to the total gross proceeds from the offering of the Securities under this Agreement, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the

Company, on the one hand, or the Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 8(d) shall be deemed to include, for purposes of this Section 8(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8(d), the Underwriters shall not be required to contribute any amount in excess of the amount by which the total price at which the Securities sold and distributed by it was offered to the purchasers exceeds the amount of any damages which the Underwriters have otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) The Underwriters severally confirm and the Company acknowledges that the statements with respect to the offering of the Securities set forth in the bottom paragraph on the cover page of, the legend concerning stabilization and over-allotment on the inside front cover of the Prospectus, and the seventh, eighth, ninth and tenth paragraphs under the caption "Underwriting" relating to stabilization and over-allotment in, the Prospectus are correct and constitute the only information furnished in writing to the Company by or on behalf of the Underwriters specifically for inclusion in the Prospectus.

SECTION 9. Defaulting Underwriters.

If, on either Delivery Date, any Underwriter defaults in the performance of its obligations under this Agreement, the remaining non-defaulting Underwriters shall be obligated to purchase the Securities which the defaulting Underwriter agreed but failed to purchase on such Delivery Date in the respective proportions which the number of Firm Securities set opposite the name of each remaining non-defaulting Underwriter in Schedule I hereto bears to the total number of Firm

Securities set opposite the names of all the remaining non-defaulting Underwriters in Schedule I hereto; provided, however, that the remaining non-defaulting Underwriters shall not be obligated to purchase any of the Securities on such Delivery Date if the total number of Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase on such date exceeds 9% of the total number of Securities to be purchased on such Delivery Date, and any remaining non-defaulting Underwriter shall not be obligated to purchase more than 110% of the number of Securities which it agreed to purchase on such Delivery Date pursuant to the terms of Section 2. If the foregoing maximums are exceeded, the remaining non-defaulting Underwriters, or those other underwriters satisfactory to the Underwriters who so agree, shall have the right, but shall not be obligated, to purchase, in such proportion as may be agreed upon among them, all the Securities to be purchased on such Delivery Date. If the remaining Underwriters or other underwriters satisfactory to the Underwriters do not elect to purchase the shares which the defaulting Underwriter or Underwriters agreed but failed to purchase on such Delivery Date, this Agreement (or, with respect to the Second Delivery Date, the obligation of the Underwriters to purchase, and of the Company to sell, the Option Securities) shall terminate without liability on the part of any non-defaulting Underwriter or the Company, except that the Company will continue to be liable for the payment of expenses to the extent set forth in Section 6. As used in this Agreement, the term "Underwriter" includes, for all purposes of this Agreement unless the context requires otherwise, any party not listed in Schedule I hereto who, pursuant to this Section 9, purchases Securities which a defaulting

Underwriter agreed but failed to purchase.

Nothing contained herein shall relieve a defaulting Underwriter of any liability it may have to the Company for damages caused by its default. If other underwriters are obligated or agree to purchase the Securities of a defaulting or withdrawing Underwriter, either the Underwriters or the Company may postpone the Delivery Date for up to seven full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the Underwriters may be necessary in the Registration Statement, the Prospectus or in any other document or arrangement.

SECTION 10. Termination.

The obligations of the Underwriters hereunder may be terminated by them by notice given to and received by the Company prior to delivery of and payment for the Securities if, prior to that time, (i) trading in securities generally on the New York Stock Exchange or the American Stock Exchange or in the over-the-counter market, or trading in any securities of the Company on any exchange or in the over-the-counter market, shall have been suspended or minimum prices shall have been established on any such exchange or such market by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction, (ii) a banking moratorium shall have been declared by Federal or New York State authorities, (iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions (or the effect of international conditions on the financial markets in the United States shall be such; provided, however, in the case of (iii) and (iv) above, as to make it, in the

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judgment of the Underwriters, impracticable or inadvisable to proceed with the offering or delivery of the Securities on the terms and in the manner contemplated in the Prospectus.

SECTION 11. Reimbursement of Underwriters' Expenses.

If the sale of Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 7 hereof is not satisfied, because of any termination pursuant to Section 10 hereof or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof other than by reason of a default by the Underwriters, the Company shall reimburse the Underwriters for the reasonable fees and expenses of its counsel and for such other out-of-pocket expenses as shall have been incurred by it in connection with this Agreement and the proposed purchase of the Securities, and upon demand the Company shall pay the full amount thereof to the Underwriters.

SECTION 12. Notices, etc.

All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the Underwriters, shall be delivered or sent by mail, telex or facsimile transmission to Lehman Brothers Inc., Three World Financial Center, New York, New York 10285, Attention: Syndicate Department (Fax: 212-528-8822);

(b) if to the Company shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Prospectus, Attention: Vice President, Finance and Treasurer (Facsimile: 210-828-8600).

Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof.

SECTION 13. Persons Entitled to Benefit of Agreement.

This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Company, and their respective successors. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except that (x) the representations, warranties, indemnities and agreements of the Company contained in this Agreement shall also be deemed to be for the benefit of the officers and employees of the Underwriters and the person or persons, if any, who control the Underwriters within the meaning of Section 15 of the Securities Act and (y) the indemnity agreement of the Underwriters contained in Section 8(b) of this Agreement shall be deemed to be for the benefit of directors, officers and employees of the Company and any person controlling the Company within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 13, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

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SECTION 14. Survival.

The respective indemnities, representations, warranties and agreements of the Company and the Underwriters contained in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall survive the delivery of and payment for the Securities and shall remain in full force and effect, regardless of any investigation made by or on behalf of any of them or any person controlling any of them.

SECTION 15. Definition of "Business Day."

For purposes of this Agreement, "business day" means any day on which the New York Stock Exchange, Inc. is open for trading.

SECTION 16. Governing Law.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF NEW YORK.

SECTION 17. Counterparts.

This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

SECTION 18. Headings.

The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

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If the foregoing correctly sets forth the agreement between the Company and the Underwriters, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,

TESORO PETROLEUM CORPORATION

By: /s/ BRUCE A. SMITH

Bruce A. Smith
Chairman of the Board, President and
Chief Executive Officer

HOWARD, WEIL, LABOUISSSE, FRIEDRICHS
INCORPORATED
(solely in its role as Qualified Independent
Underwriter)

By: HOWARD, WEIL, LABOUISSSE, FRIEDRICHS
INCORPORATED

By: /s/ JAMES HANSON

(Authorized Representative)

Accepted:

LEHMAN BROTHERS INC.
HOWARD, WEIL, LABOUISSSE, FRIEDRICHS INCORPORATED

By: LEHMAN BROTHERS INC.

By: /s/ H.E. MCGEE III

(Authorized Representative)

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SCHEDULE I

Name of Underwriter -----	Number of Firm Securities to be purchased -----	Number of Option Securities to be purchased (if over-allotment option exercised in full) -----
Lehman Brothers Inc.....	8,100,000	1,215,000
Howard, Weil, Labouisse, Friedrichs Incorporated	900,000	135,000
Total.....	----- 9,000,000 =====	----- 1,350,000 =====

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SCHEDULE II

1. Digicomp, Inc.
2. Interior Fuels Company
3. Kenai Pipe Line Company
4. Tesoro Alaska Petroleum Company
5. Tesoro Alaska Pipeline Company
6. Tesoro Bolivia Petroleum Company
7. Tesoro E&p Company, L.P.
8. Tesoro Exploration and Production Company
9. Tesoro Financial Services Holding Company
10. Tesoro Gas Resources Company, Inc.
11. Tesoro Hawaii Corporation
12. Tesoro Latin America Company
13. Tesoro Marine Services, Inc.
14. Tesoro Natural Gas Company
15. Tesoro Northstore Company
16. Tesoro Petroleum Companies, Inc.
17. Tesoro Petroleum South Pacific Company
18. Tesoro Pipeline Company, L.P.
19. Tesoro Refining, Marketing & Supply Company
20. Tesoro Vostok Company
21. Victory Finance Company

5,000,000 SHARES

TESORO PETROLEUM CORPORATION

COMMON STOCK, PAR VALUE \$0.16 2/3 PER SHARE

UNDERWRITING AGREEMENT

June 25, 1998

LEHMAN BROTHERS INC.
 CIBC OPPENHEIMER
 CREDIT SUISSE FIRST BOSTON
 MERRILL LYNCH & CO.
 SALOMON SMITH BARNEY
 c/o Lehman Brothers Inc.
 Three World Financial Center
 New York, New York 10285

Ladies and Gentlemen:

Tesoro Petroleum Corporation, a Delaware corporation (the "Company"), proposes to sell to Lehman Brothers Inc., CIBC Oppenheimer Corp., Credit Suisse First Boston Corporation, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Smith Barney Inc., as the several underwriters (collectively, the "Underwriters"), and the Underwriters propose, severally and not jointly, to purchase 5,000,000 shares (the "Firm Stock") of the Company's Common Stock, par value \$0.16 2/3 per share (the "Common Stock"). In addition, the Company proposes to grant to the Underwriters an option to purchase up to an additional 750,000 shares of the Common Stock on the terms and for the purposes set forth in Section 2 (the "Option Stock"). The Firm Stock and the Option Stock, if purchased, are hereinafter collectively called the "Stock." This is to confirm the agreement concerning the purchase of the Stock from the Company by the Underwriters.

The Stock is being issued and sold in connection with the acquisition (the "Hawaii Acquisition") of BHP Petroleum Americas Refining Inc. and BHP Petroleum South Pacific Inc. (together, "BHP Hawaii") and the proposed acquisition (the "Washington Acquisition," and together with the Hawaii Acquisition, the "Acquisitions") of Shell Anacortes Refining Company ("Shell Washington") by the Company. Concurrently with the offering of the Stock (the "Common Stock Offering"), the Company is offering 9,000,000 Premium Income Equity Securities (SM) (the "PIES (SM)") representing interests in the Company's 7 1/4% Mandatorily Convertible Preferred Stock (the "Mandatorily Convertible Preferred Stock"), with gross proceeds of \$143.4 million (excluding any proceeds from the exercise of over-allotment options granted to the underwriters of the PIES). The Company is also proposing to offer \$300 million in aggregate principal amount of its Senior

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Subordinated Notes due 2008 (the "Notes"). The closing of the Common Stock Offering is not conditioned upon the closings of the offerings of PIES (the "PIES Offering") or the Notes (the "Notes Offering" and together with the Common Stock Offering and PIES Offering, the "Offerings"), nor is the closing of any of the Offerings conditioned upon the closing of the Washington Acquisition. The net proceeds from the Offerings, together with borrowing under the Company's Third Amended and Restated Credit Facility (the "Senior Credit Facility"), will be used to fund the cash purchase price of the Washington Acquisition, to refinance the Company's Second Amended and Restated Credit Facility (the "Interim Credit Facility") (a portion of which was used to finance the cash purchase price of the Hawaii Acquisition), to pay certain fees and expenses related to the Transactions (as defined below) and, to the extent not used, for general corporate purposes (including working capital requirements and capital expenditures).

The (i) stock purchase agreement entered into by the Company in connection with the Washington Acquisition (the "Washington Agreement") and the Senior Credit Facility, (ii) the underwriting agreement entered into in

connection with the PIES Offering and the deposit agreement entered into in connection with the PIES Offering and (iii) the purchase agreement, registration rights agreement, indenture, Notes and subsidiary guarantees thereof entered into in connection with the Notes Offering are hereinafter sometimes collectively referred to as the "Transaction Documents." The Offerings, the Acquisitions and the closing of the Senior Credit Facility are hereinafter sometimes referred to collectively as the "Transactions."

SECTION 1. Representations, Warranties and Agreements of the Company.

The Company represents and warrants to, and agrees with, the Underwriters that as of the date hereof:

(a) A registration statement on Form S-3 (file number 333-51789), and amendments thereto, with respect to the Stock has (i) been prepared by the Company in conformity in all material respects with the requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") thereunder, (ii) been filed with the Commission under the Securities Act and (iii) become effective under the Securities Act. Such registration statement, as amended as of the date of this Agreement, meets the requirements set forth in Rule 415(a)(1)(x) under the Act and complies in all material respects with said Rule. Copies of such registration statement and amendments thereto have been delivered by the Company to you as the Underwriters. Upon your written request, but not without your agreement, the Company will also file a Rule 462(b) Registration Statement in accordance with Rule 462(b). As used in this Agreement, "Effective Time" means the date and the time as of which such registration statement, the most recent post-effective amendment thereto, if any, or any Rule 462(b) Registration Statement became or becomes effective; "Effective Date" means the date of the Effective Time; "Preliminary Prospectus" means each prospectus included in such registration statement, or amendments thereof, including without limitation the preliminary prospectus supplement, dated June 5, 1998 (the "Preliminary

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Prospectus Supplement") relating to the Stock filed with the Commission pursuant to Rule 424(b)(5) of the Rules and Regulations, through the date of the Preliminary Prospectus Supplement; "Registration Statement" means such registration statement, as amended at the Effective Time, including any documents incorporated by reference therein at such time and all information contained in the final prospectus relating to the Stock filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations in accordance with Section 5(a) hereof and deemed to be a part of the registration statement as of the Effective Time pursuant to paragraph (b) of Rule 430A of the Rules and Regulations and, in the event any Rule 462(b) Registration Statement becomes effective prior to the First Delivery Date (as hereinafter defined), also means such registration statement as so amended, unless the context otherwise requires; "Prospectus" means the Prospectus included in the Registration Statement at the Effective Time, including without limitation the final prospectus supplement, dated June 26, 1998, relating to the Stock, as first filed with the Commission pursuant to paragraph (2) or (5) of Rule 424(b) of the Rules and Regulations; and "Rule 462(b) Registration Statement" means the registration statement and any amendments thereto filed pursuant to Rule 462(b) of the Rules and Regulations relating to the offering covered by the initial Registration Statement. Reference made herein to any Preliminary Prospectus or to the Prospectus shall be deemed to refer to and include any documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Securities Act, as of the date of such Preliminary Prospectus or the Prospectus, as the case may be. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

(b) The Registration Statement conforms, and the Prospectus, any further amendments or supplements to the Registration Statement or the Prospectus and any Rule 462(b) Registration Statement will, when they become effective or are filed with the Commission, as the case may be, conform in all material respects to the requirements of the Securities Act and the Rules and Regulations and do not and will not, as of the applicable Effective Time (as to the Registration Statement and any amendment thereto) and as of the applicable filing date (as to the Prospectus and any amendment or supplement thereto) contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements

therein not misleading; provided that no representation or warranty is made as to information contained in or omitted from the Registration Statement or the Prospectus in reliance upon and in conformity with written information furnished to the Company through the Underwriters by or on behalf of any Underwriter specifically for inclusion therein.

(c) The documents incorporated by reference in the Preliminary Prospectus and the Prospectus when they became effective or were filed with the Commission, conformed in all material respects to the requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Commission thereunder, and none of such documents, when read together with the other information in the Prospectus, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Prospectus when such documents became effective or are filed with the Commission, as the case

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may be, will conform in all material respects to requirements of the Exchange Act and the rules and regulations of the Commission thereunder, and none of such documents, when read together with the other information in the Prospectus, will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(d) The Company is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware with full corporate power and authority to own, lease and operate its properties and conduct its business as described in the Prospectus, and is duly qualified and registered as a foreign corporation for the transaction of business and is in good standing in each jurisdiction in which the character of the business conducted by it or the location of the properties owned or leased by it make such qualification or registration necessary (except where the failure to so qualify or register would not have a Material Adverse Effect (as defined below)). The Company has an authorized capitalization as set forth under the caption "Capitalization" in the Prospectus. On the date hereof and on the First Delivery Date all of the issued and outstanding shares of capital stock of the Company (including the shares of Common Stock to be issued in the Common Stock Offering and upon conversion of the Mandatorily Convertible Preferred Stock) have been duly authorized and will be validly issued and fully paid and nonassessable and will conform to the description thereof contained in or incorporated by reference in the Prospectus. As used herein, "Material Adverse Effect" means a material adverse effect on the condition (financial or otherwise), results of operations, business, earnings or prospects of the Company and the Subsidiaries (as defined below), taken as a whole.

(e) Schedule II hereto is a complete and accurate schedule of the names of all corporations, partnerships and joint ventures (the "Subsidiaries") which constitute "subsidiaries," as such term is defined in Rule 405 of the rules and regulations of the Commission under the Securities Act (collectively with the rules and regulations of the Commission under the Exchange Act, the "Rules and Regulations"). Other than the Subsidiaries listed on Schedule II, no corporation, partnership or other entity in which the Company has an equity interest constitutes a "subsidiary" as defined in Rule 405 of the Rules and Regulations. Each Subsidiary is duly organized, validly existing and in good standing in the jurisdiction of its incorporation or formation, as the case may be, with full corporate or other power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus. Each Subsidiary is duly qualified and registered as a foreign corporation or limited partnership, as the case may be, for the transaction of business and is in good standing in each jurisdiction in which the character of the business conducted by it or the location of the properties owned or leased by it make such qualification or registration unnecessary, save where the failure to so qualify or be in good standing as a foreign corporation or limited partnership, as the case may be, would not have a Material Adverse Effect.

(f) All of the issued and outstanding shares of capital stock of each of the Subsidiaries that is a corporation have been duly

authorized and validly issued, are fully paid and nonassessable, and are owned by the Company directly or indirectly, free and clear of any lien, adverse claim, security interest or other encumbrance (a "Lien"), except as arising from the Interim

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Credit Facility and, upon its execution, the Senior Credit Facility or as described in the Prospectus. All outstanding equity interests in each Subsidiary that is not a corporation have been duly authorized and validly issued and are owned by the Company directly or indirectly, free and clear of any Lien, except as arising from the Interim Credit Facility and, upon its execution, Senior Credit Facility or as described in the Prospectus. Except as disclosed in the Prospectus and as outstanding under employee benefit plans of the Company, there are no outstanding subscriptions, rights (preemptive or other), warrants, calls, commitments of sale or options to acquire, or instruments convertible into or exchangeable for, nor any restriction on the voting or transfer of, any capital stock or other equity interest of the Company or any Subsidiary;

(g) The Company and each of the Subsidiaries have all requisite power and authority to execute, deliver and perform their respective obligations under this Agreement and each of the Transaction Documents, to which they may respectively be a party, and to consummate the transactions contemplated hereby and thereby, including, without limitation, the power and authority to issue, sell and deliver the Stock as provided herein and therein and to consummate the Transactions.

(h) This Agreement has been duly and validly authorized, executed and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and subject to the applicability of general principles of equity, and except as rights to indemnity and contribution hereunder and thereunder may be limited by Federal or state securities laws or principles of public policy.

(i) The Washington Agreement has been duly authorized, validly executed and delivered by the Company. The Washington Agreement constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and to general equity principles.

(j) The Senior Credit Facility has been duly authorized by the Company and, upon execution thereby, will have been validly executed and delivered by the Company and the Subsidiaries party thereto. When the Senior Credit Facility has been duly executed and delivered by the Company and each of such Subsidiaries, the Senior Credit Facility will constitute a valid and binding agreement of the Company and each of such Subsidiaries, enforceable against the Company and each of such Subsidiaries in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and to general equity principles. The Prospectus contains an accurate summary, in all material respects, of the terms of the Senior Credit Facility.

(k) The execution, delivery and performance of this Agreement by the Company and the Transaction Documents by the Company and the Subsidiaries party thereto, compliance by

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the Company and each of such Subsidiaries with all the provisions hereof and thereof, the issuance and sale of the Stock by the Company and the consummation by the Company and such Subsidiaries of the transactions contemplated hereby and thereby, including the Transactions and as described in the Prospectus under the caption "Use of Proceeds," (i) will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a

default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary is bound or to which any of the properties or assets of the Company or any Subsidiary is subject, (ii) will not result in any violation of the provisions of the charter, by-laws or other organizational documents of the Company or any Subsidiary or (iii) will not result in any violation of the provisions of any law or statute or any order, rule, regulation, judgment or decree of any court or governmental agency or body having jurisdiction over the Company or any Subsidiary or any of their respective properties or assets, or (iv) result in the imposition or creation of (or the obligation to create or impose) a Lien under any agreement or instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary or their respective properties or assets is bound, except in the case of clauses (i), (iii) and (iv) for such conflicts, breaches, defaults, violations or Liens which individually or in the aggregate would not result in a Material Adverse Effect. Except for such consents, approvals, authorizations, other orders, filings, qualifications or registrations (i) as have been obtained, (ii) as may be required under applicable state securities or Blue Sky laws of various jurisdictions in connection with the issuance, sale and delivery of the Stock, (iii) as may be required in connection with the Washington Acquisition, (iv) as may be required in the perfection of liens in connection with the consummation of the Transactions and (v) which the failure to obtain would not result in a Material Adverse Effect, no consent, approval, authorization, or order of or filing, qualification or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement or the Transaction Documents by the Company and each of the Subsidiaries party thereto, compliance by the Company and each of the Subsidiaries party thereto with all the provisions hereof and thereof, the issuance and sale of the Stock by the Company and the consummation of the transactions contemplated hereby and thereby, including the Transactions and as described in the Prospectus under the caption "Use of Proceeds."

(l) Neither the Company nor any Subsidiaries has sustained, since the date of the latest quarterly financial statements included in the Prospectus, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth in the Prospectus, except losses or interferences which do not, individually or in the aggregate, have a Material Adverse Effect; and, since such date, there has not been any material change in the capital stock or other equity interest or long-term debt or short-term debt of the Company or any Subsidiaries or any change having a Material Adverse Effect, or any development involving a prospective material adverse change, in or affecting the general affairs, management, consolidated financial position, stockholders' equity or results of operations of the Company and the Subsidiaries, otherwise than as set forth or contemplated in the Prospectus; and, since such date, except as otherwise disclosed in the Prospectus, the Company has not (i) issued or granted any securities, other

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than pursuant to Company employee benefit plans or (ii) declared or paid any dividend on its capital stock.

(m) The historical consolidated financial statements (including the related notes and supporting schedules) of the Company, and to the Company's knowledge, BHP Hawaii and Shell Washington, which appear in the Preliminary Prospectus and the Prospectus comply as to form in all material respects with the applicable accounting requirements of Securities Act, the Exchange Act, and the Rules and Regulations, present fairly in all material respects the consolidated financial position and results of operations of the entities purported to be shown thereby, at the dates and for the periods indicated, and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved except as noted therein. The pro forma financial statements included in the Preliminary Prospectus and the Prospectus present fairly in all material respects the historical and proposed transactions contemplated by this Agreement and in the Preliminary Prospectus and the Prospectus; and such pro forma financial statements comply as to form in all material respects with the applicable accounting requirements of the Securities Act, the Exchange Act and the Rules and Regulations, have been prepared on a basis consistent with the historical consolidated financial statements of the Company, and to the Company's knowledge, BHP Hawaii and Shell Washington, give effect to

assumptions used in the preparation thereof on a reasonable basis. The other financial and statistical information and operating data of the Company, and to the Company's knowledge, BHP Hawaii and Shell Washington included in the Preliminary Prospectus and the Prospectus, historical and pro forma, is, in all material respects, accurately presented and prepared on a basis consistent with the financial statements, in all material respects, included in the Preliminary Prospectus and the Prospectus and the books and records of the Company, and to the Company's knowledge, the books and records of BHP Hawaii and Shell Washington.

(n) Except for the Registration Rights Agreement entered into by the Company and the Subsidiaries party thereto in connection with the Notes Offering, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company, owned or to be owned by such person or to require the Company to include such securities with any securities being registered pursuant to any registration statement filed by the Company under the Securities Act.

(o) Deloitte & Touche LLP, and to the Company's knowledge, Arthur Andersen LLP and Price Waterhouse LLP, who have certified certain financial statements of the Company and its Subsidiaries, BHP Hawaii and Shell Washington, respectively, whose reports are included or incorporated by reference in the Prospectus and who have delivered the initial letters referred to in Section 7(g) hereof, are independent public accountants as required by the Securities Act and the Rules and Regulations.

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(p) Other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any Subsidiary is a party or to which any of their respective properties or assets is subject which (i) could reasonably be expected to have a Material Adverse Effect or (ii) could materially and adversely affect the consummation by the Company of its obligations pursuant to this Agreement or the Transaction Documents; and to the Company's knowledge, no such proceedings are threatened or contemplated by government authorities or threatened by others.

(q) The Company and each of the Subsidiaries has such permits, licenses, franchises and authorizations of governmental or regulatory authorities ("permits") as are necessary to own its respective properties and to conduct its business in the manner described in the Prospectus subject in each case to such qualifications as may be set forth in the Prospectus and except where the failure to have such permits would not have a Material Adverse Effect; the Company and each of the Subsidiaries has fulfilled and performed in all material respects all of its current obligations with respect to such permits and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other material impairment of the rights of the holder of any such permits, subject in each case to such qualifications as may be set forth in the Prospectus and except where the failure so to fulfill or perform or the occurrence of such an event would not have a Material Adverse Effect; and, except as described in the Prospectus, none of such permits contains any restriction that is materially burdensome to the Company and the Subsidiaries, taken as a whole.

(r) The Company and each of the Subsidiaries owns or possesses adequate rights to use all material patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights and licenses necessary for the conduct of their respective businesses, except where the failure to have such permits would not have a Material Adverse Effect, and have no reason to believe that the conduct of their respective businesses will conflict with, and have not received any notice of any claim of conflict with, any such rights of others.

(s) With the exception of producing oil and gas properties and gas gathering properties (the "Oil and Gas Properties"), the Company and each of the Subsidiaries has good and indefeasible title in fee simple to all real property and good and defensible title to all personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially adversely affect the value of such property or interfere with the use made and proposed to be made of such property by the Company and the

Subsidiaries; and with the exception of the Oil and Gas Properties, all real property, buildings and vessels held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases, with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property, buildings and vessels by the Company and the Subsidiaries.

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(t) The Company and each of the Subsidiaries has good and defensible title to its Oil and Gas Properties, free and clear of all liens, encumbrances and defects, except (a) those described in the Preliminary Prospectus and the Prospectus, (b) liens securing taxes and other governmental charges, or claims of materialmen, mechanics and similar persons, not yet due and payable, (c) liens and encumbrances under operating agreements, unitization and pooling agreements, and gas sales contracts, securing payment of amounts not yet due and payable and of a scope and nature customary in the oil and gas industry and (d) liens, encumbrances and defects that do not in the aggregate materially affect the value of such Oil and Gas Properties or materially interfere with the use made or proposed to be made of such properties by the Company or any of the Subsidiaries. Except to the extent described in the Preliminary Prospectus and the Prospectus, the oil, gas and mineral leases, coal methane leases, options to lease, drilling concessions or other property interests therein held by the Company and each of the Subsidiaries reflects in all material respects the right of the Company and its Subsidiaries, as the case may be, to explore or receive production from the undeveloped properties described in the Preliminary Prospectus and the Prospectus, and the Company and each of the Subsidiaries have exercised reasonable diligence with respect to acquiring or otherwise procuring such leases, options to lease, drilling concessions and other property interests.

(u) No labor disturbance by the employees of the Company or any of the Subsidiaries exists or, to the knowledge of the Company, is imminent which might be expected to have a Material Adverse Effect; except as disclosed in the Prospectus, neither the Company nor any of the Subsidiaries is party to a collective bargaining agreement; and there are no significant unfair labor practice complaints pending against the Company or any of the Subsidiaries or, to the best of the Company's knowledge, threatened against any of them.

(v) The Company and each of the Subsidiaries is in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"); no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company or any of the Subsidiaries would have any liability; neither the Company nor any of the Subsidiaries has incurred and neither do any of them expect to incur liability under (i) title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Internal Revenue code of 1985, as amended, including the regulations and published interpretations thereunder (the "Code"); and each "pension plan" for which the Company or any Subsidiary would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(w) The Company and each of the Subsidiaries has filed, and as of the First Delivery Date will have filed, all federal, state, local and foreign income and franchise tax returns required to be filed through the date hereof and has paid all taxes due thereon, and no tax deficiency has been determined adversely to the Company or any of the Subsidiaries which has had (nor does

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the Company have any knowledge of any tax deficiency which, if determined adversely to the Company or any of the Subsidiaries, might have) a Material Adverse Effect.

(x) The Company and each of the Subsidiaries (i) makes

and keeps accurate books and records and (ii) maintains internal accounting controls which provide reasonable assurance that (A) transactions are executed in accordance with management's authorization, (B) transactions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its assets, (C) access to its assets is permitted only in accordance with management's authorization and (D) the reported accountability for its assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any difference.

(y) Except as described in the Preliminary Prospectus and the Prospectus and except such matters as would not, singly or in the aggregate, result in a Material Adverse Effect, (A) neither the Company nor any of the Subsidiaries is in violation of any federal, state, local or foreign statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or administrative order, consent, decree or judgment thereof, including any judicial or administrative order, consent, decree or judgment relating to pollution or protection of human health, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum or petroleum products (collectively, "Hazardous Materials") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, "Environmental Laws"), (B) the Company and each of the Subsidiaries has all permits, authorizations and approvals required under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or, to the knowledge of the Company, threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company or any of the Subsidiaries and (D) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company or any of the Subsidiaries relating to Hazardous Materials or Environmental Laws.

(z) The Company is not, and upon the issuance and sale of the Stock as herein contemplated and the application of the net proceeds therefrom as described under the caption "Use of Proceeds" in the Prospectus will not be an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

(aa) The conditions for the use of Form S-3, as set forth in the General Instructions thereto, have been satisfied.

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(bb) The statements set forth in the Prospectus under the captions "Prospectus Summary--The Transactions--The Acquisitions," "Business--Government Regulation and Legislation," "Description of Indebtedness" and "Description of Capital Stock" insofar as such statements purport to summarize the provisions of the documents or agreements referred to therein, matters of law or legal conclusions or federal statute, laws or regulations, are accurate and fairly present the information required to be shown.

(cc) The information supplied by the Company to the independent petroleum engineering consultants for the Company for purposes of preparing the reserve reports and estimates of such consultants incorporated by reference in the Preliminary Prospectus and the Prospectus, including, without limitation, production, costs of operation and development, current prices for production, agreements relating to current and future operations and sales of production, was true and correct in all material respects on the date supplied and was prepared in accordance with customary industry practices; and Netherland, Sewell & Associates, Inc., independent petroleum engineers, who prepared estimates of the extent and value of proved oil and natural gas reserves of the Company are independent with respect to the Company.

(dd) The Company and each of the Subsidiaries has complied with, and is and will be in compliance with, the provisions of that certain Florida act relating to disclosure of doing business with Cuba, codified as

Section 517.075 of the Florida statutes, and the rules and regulations thereunder or is exempt therefrom.

The Company acknowledges that the Underwriters and, for purposes of the opinions to be delivered to the Underwriters pursuant to Section 7 hereof, counsel to the Company and counsel to the Underwriters, will rely upon the accuracy and truth of the foregoing representations and hereby consents to such reliance. Each certificate signed by any officer of the Company and delivered to the Underwriters or counsel for the Underwriters shall be deemed to be a representation and warranty by the Company to the Underwriters as to the matters covered thereby.

SECTION 2. Purchase of the Stock by the Underwriters.

(a) On the basis of the representations and warranties contained in, and subject to the terms and conditions of, this Agreement, the Company agrees to sell 5,000,000 shares of the Firm Stock to the several Underwriters and each of the Underwriters, severally and not jointly, agrees to purchase the number of shares of the Firm Stock set opposite that Underwriter's name in Schedule I hereto.

(b) In addition, the Company grants to the Underwriters an option to purchase up to 750,000 shares of Option Stock. Such option is granted solely for the purpose of covering over-allotments in the sale of Firm Stock and is exercisable as provided in Section 4 hereof. Shares of Option Stock shall be purchased severally and not jointly for the account of the Underwriters in proportion to the number of shares of Firm Stock set opposite the name of such Underwriters in Schedule I hereto. The respective purchase obligations of each Underwriter with respect to the

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Option Stock shall be adjusted by the Underwriters so that no Underwriter shall be obligated to purchase Option Stock other than in 100 share amounts. The price of both the Firm Stock and any Option Stock shall be \$15 15/16 per share.

(c) The Company shall not be obligated to deliver any of the Stock to be delivered on the First Delivery Date or the Second Delivery Date (as hereinafter defined), as the case may be, except upon payment for all the Stock to be purchased on such Delivery Date as provided herein.

SECTION 3. Offering of Stock by the Underwriters.

(a) Upon authorization by the Underwriters of the release of the Firm Stock, the several Underwriters propose to offer the Firm Stock for sale upon the terms and conditions set forth in the Prospectus.

(b) Each Underwriter agrees that it will not offer or sell any of the Stock outside of the United States and Canada.

SECTION 4. Delivery of and Payment for the Stock.

(a) Delivery of and payment for the Firm Stock shall be made at the offices of Andrews & Kurth, L.L.P., 600 Travis Street, Houston, Texas 77002, at 8:30 A.M., Houston time, on July 1, 1998, or at such other date or place as shall be determined by agreement between the Underwriters and the Company. This date and time are sometimes referred to herein as the "First Delivery Date." On the First Delivery Date, the Company shall deliver or cause to be delivered certificates representing the Firm Stock to the Underwriters for the account of each Underwriter against payment to or upon the order of the Company of the purchase price by wire transfer in immediately available funds. Time shall be of the essence (except that the Company will not be responsible for any delay resulting from any action or inaction of any Underwriter) and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligations of each Underwriter hereunder. Upon delivery, the Firm Stock shall be registered in such names and in such denominations as the Underwriters shall request in writing not less than two full business days prior to the First Delivery Date. For the purpose of expediting the checking and packaging of the certificates for the Firm Stock, the Company shall make the certificates representing the Firm Stock available for inspection by the Underwriters in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the First Delivery Date.

(b) At any time on or before the thirtieth day after the date of this Agreement, the option granted in Section 2 may be exercised by written notice being given to the Company by the Underwriters. Such notice shall set forth the aggregate number of shares of Option Stock as to which the option is being exercised, the names in which the shares of Option Stock are to be registered, the denominations in which the shares of Option Stock are to be issued and the date and time, as determined by the Underwriters, when the shares of Option Stock are to be delivered; provided, however, that this date and time shall not be earlier than the First Delivery Date nor earlier

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than the second business day after the date on which the option shall have been exercised nor later than the third business day after the date on which the option shall have been exercised. The date and time the shares of Option Stock are delivered are sometimes referred to as the "Second Delivery Date" and the First Delivery Date and the Second Delivery Date are sometimes each referred to as a "Delivery Date."

(c) Delivery of and payment for the Option Stock shall be made at the place specified in the first sentence of the first paragraph of this Section 4 (or at such other place as shall be determined by agreement between the Underwriters and the Company) at 8:30 A.M., Houston time, on the Second Delivery Date. On the Second Delivery Date, the Company shall deliver or cause to be delivered the certificates representing the Option Stock to the Underwriters for the account of each Underwriter against payment to or upon the order of the Company of the purchase price by wire transfer in immediately available funds. Time shall be of the essence (except that the Company will not be responsible for any delay resulting from any action or inaction of any Underwriter), and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligations of each Underwriter hereunder. Upon delivery, the Option Stock shall be registered in such names and in such denominations as the Underwriters shall request in the aforesaid written notice. For the purpose of expediting the checking and packaging of the certificates representing the Option Stock available for inspection by the Underwriters in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the Second Delivery Date.

SECTION 5. Further Agreements of the Company.

The Company further agrees:

(a) To prepare the Prospectus in a form approved by the Underwriters and to file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than Commission's close of business on the second business day following the execution and delivery of this Agreement or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Securities Act; to make no further amendment or any supplement to the Registration Statement or to the Prospectus and to file no Rule 462(b) Registration Statement except as permitted herein; to advise the Underwriters, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish the Underwriters with copies thereof; upon your request, to cause the Rule 462(b) Registration Statement, properly completed, to be filed with the Commission pursuant to Rule 462(b) and to provide evidence satisfactory to the Underwriters of such filing; to advise the Underwriters, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, of the suspension of the qualification of the Stock for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the

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Prospectus or suspending any such qualification, to use promptly its reasonable best efforts to obtain its withdrawal;

(b) To furnish reasonably promptly to each of the Underwriters and to counsel for the Underwriters a signed copy of the Registration Statement as originally filed with the Commission, each amendment thereto and any Rule 462(b) Registration Statement filed with the Commission, including all consents and exhibits filed therewith;

(c) To deliver promptly to the Underwriters such number of the following documents as the Underwriters shall reasonably request: (i) conformed copies of the Registration Statement as originally filed with the Commission, each amendment thereto (in each case excluding exhibits other than this Agreement) and any Rule 462(b) Registration Statement, (ii) each Preliminary Prospectus, the Prospectus and any amended or supplemented Prospectus and (iii) any document incorporated by reference in the Prospectus (excluding exhibits thereto); and, if the delivery of a prospectus is required at any time after the Effective Time in connection with the offering or sale of the Stock or any other securities relating thereto and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary to amend or supplement the Prospectus or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Securities Act or the Exchange Act, to notify the Underwriters and, upon their request, to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as the Underwriters may from time to time reasonably request of an amended or supplemented Prospectus which will correct such statement or omission or effect such compliance;

(d) To file promptly with the Commission any amendment to the Registration Statement or the Prospectus or any supplement to the Prospectus that may, in the judgment of the Company or the Underwriters, be required by the Securities Act or requested by the Commission;

(e) Prior to filing with the Commission any amendment to the Registration Statement or supplement to the Prospectus, any document incorporated by reference in the Prospectus, any Prospectus pursuant to Rule 424 of the Rules and Regulations or any Rule 462(b) Registration Statement to furnish a copy thereof to the Underwriters and counsel for the Underwriters and obtain the consent of the Underwriters to the filing;

(f) The Company will make generally available to holders of its securities as soon as may be practicable an earnings statement (which need not be audited but shall be in reasonable detail) for a period of 12 months ended commencing after the Effective Date, and satisfying the provisions of Section 11(a) of the Act (including Rule 158 of the Rules and Regulations).

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(g) For a period of five years following the Effective Date, to furnish to the Underwriters copies of all materials furnished by the Company to its public shareholders and all public reports and all reports and financial statements furnished by the Company to the principal national securities exchange upon which the Common Stock may be listed pursuant to requirements of or agreements with such exchange or to the Commission pursuant to the Exchange Act or any rule or regulation of the Commission thereunder;

(h) Promptly from time to time to take such action as the Underwriters may reasonably request to qualify the Stock for offering and sale (or obtain an exemption from registration) under the securities laws of such jurisdictions as the Underwriters may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Stock; provided, however, that the Company shall not be required to qualify as a foreign corporation or a dealer in securities or to execute a general consent to service of process in any jurisdiction in any action other than one arising out of the offering or sale of the Stock;

(i) For a period of 90 days from the date of the Prospectus, not to, directly or indirectly, (A) offer for sale, sell, pledge or otherwise dispose of (or enter into any transaction or device which is designed

to, or could be expected to, result in the disposition by any person at any time in the future of) any shares of Common Stock or any securities convertible into or exchangeable for Common Stock (other than the Stock, the PIES, the Mandatorily Convertible Preferred Stock, shares of Common Stock issued pursuant to employee benefit plans, qualified stock option plans or other employee compensation plans existing on the date hereof or pursuant to currently outstanding options, warrants or rights or upon the conversion of the Mandatorily Convertible Preferred Stock or upon the conversion of Convertible Subordinated Debentures of Coastwide Energy Services, Inc.) or (B) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of such securities, whether any such transaction described in clause (A) or (B) above is to be settled by delivery of shares of Common Stock or other securities, in cash or otherwise, in each case without the prior written consent of Lehman Brothers Inc.; and to cause each executive officer and director of the company to furnish to Lehman Brothers, prior to the First Delivery Date, a letter (a "Lock-Up Letter") in form and substance satisfactory to Andrews & Kurth L.L.P., pursuant to which each such person shall agree, not to, directly or indirectly, (x) offer for sale, sell, pledge or otherwise dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any shares of Common Stock or any securities convertible into or exchangeable for Common Stock or (y) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of such shares of Common Stock, whether any such transaction described in clause (x) or (y) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise, in each case for a period of 90 days from the date of the Prospectus, without the prior written consent of Lehman Brothers Inc.

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(j) To take such steps as shall be necessary to ensure that neither the Company nor any Subsidiary of the Company shall become an "investment company" within the meaning of such term under the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder.

(k) To apply the net proceeds from the sale of the Notes as set forth under the caption "Use of Proceeds" in the Prospectus.

(l) To do all things required or necessary to be done or performed under this Agreement prior to such Delivery Date by such date and to satisfy the closing conditions set forth in Section 7 hereof.

SECTION 6. Expenses.

Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, the Company agrees to pay or cause to be paid all reasonable expenses incident to the performance of the obligations of the Company under this Agreement, including: (i) the costs incident to the authorization, issuance, sale and delivery of the Stock and any taxes payable in that connection; (ii) fees, disbursements and expenses of counsel to the Company and accountants to Company in connection with the sale and delivery of the Stock, and all other fees and expenses in connection with the preparation, printing and filing under the Securities Act of the Registration Statement and any amendments and exhibits thereto (including financial statements), including the mailing and delivering of copies to the Underwriters and persons designated by them in the quantities specified; (iii) the costs of distributing the Registration Statement as originally filed and each amendment thereto and any post-effective amendments thereof (including, in each case, exhibits), any Preliminary Prospectus, the Prospectus and any amendment or supplement to the Prospectus or any document incorporated by reference therein, all as provided in this Agreement; (iv) the costs of producing and distributing this Agreement, and any related documents in connection with the offering, purchase, sale and delivery of the Stock; (v) listing or other fees incident to the inclusion of the Stock for listing on the New York Stock Exchange; (vi) the fees and expenses, if applicable, of qualifying the Stock under the securities laws of the several jurisdictions as provided in Section 5(h) and of preparing, printing and distributing a Blue Sky Memorandum (including reasonable related fees and expenses of counsel to the Underwriters in connection with such qualification and memorandum relating thereto); and (vii) all other costs and expenses incident to the performance of

the obligations of the Company or any of the Subsidiaries under this Agreement; provided that, except as provided in this Section 6 and in Section 11, the Underwriters shall pay their own costs and expenses, including the costs and expenses of their counsel, any transfer taxes on the Stock which they may sell and the expenses of advertising any offering of the Stock made by the Underwriters.

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SECTION 7. Conditions to the Underwriters' Obligations.

The obligations of the Underwriters hereunder are subject to the accuracy, when made and on each Delivery Date, of the representations and warranties of the Company contained herein, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

(a) The Prospectus shall have been timely filed with the Commission in accordance with Section 5(a); no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion of additional information in the Registration Statement or the Prospectus or otherwise shall have been complied with.

(b) No Underwriter shall have discovered and disclosed to the Company on or prior to such Delivery Date that the Registration Statement or the Prospectus or any amendment or supplement thereto contains an untrue statement of a fact which, in the opinion of Andrews & Kurth, L.L.P., counsel for the Underwriters, is material or omits to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement and the Prospectus, and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be reasonably satisfactory in all material respects to counsel for the Underwriters, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) The Prospectus shall have been printed and copies distributed to the Underwriters not later than 10:00 a.m., New York City time, on the day following the date of this Agreement or at such later date and time as to which the Underwriters may agree.

(e) The Underwriters shall have received from Fulbright & Jaworski L.L.P. their written opinion, as counsel to the Company, addressed to the Underwriters and dated such Delivery Date, in form and substance reasonably satisfactory to the Underwriters, to the effect set forth in Exhibit A hereto and to such further effect as counsel to the Underwriters may reasonably request.

(f) The Underwriters shall have received from James C. Reed, Jr., his written opinion, as General Counsel of the Company, addressed to the Underwriters and dated such Delivery Date, in form and substance reasonably satisfactory to the Underwriters, to the effect set forth in Exhibit B hereto and to such further effect as counsel to the Underwriters may reasonably request.

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(g) At the time of execution of this Agreement, the Underwriters shall have received from each of Deloitte & Touche LLP, Arthur Andersen LLP and Price Waterhouse LLP a letter, in form and substance satisfactory to the Underwriters, addressed to the Underwriters and dated the date hereof, (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date hereof (or, with

respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than five business days prior to the date hereof), the conclusions and findings of such firm with respect to the financial information, operating data and other matters ordinarily covered by accountants' "comfort letters" to underwriters, including the financial information contained or incorporated by reference in the Prospectus as identified by you.

(h) With respect to the letters of Deloitte & Touche LLP, Arthur Andersen LLP and Price Waterhouse LLP referred to in the preceding paragraph and delivered to the Underwriters concurrently with the execution of this Agreement (the "initial letters"), the Company shall have furnished to the Underwriters letters (the "bring-down letters") of such accountants, addressed to the Underwriters and dated such Delivery Date, (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring-down letters (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, as of a date not more than five business days prior to the date of the respective bring-down letter), the conclusions and findings of such firm with respect to the financial information, operating data and other matters covered by the respective initial letter and (iii) confirming in all material respects the conclusions and findings set forth in the respective initial letter.

(i) (A) At the time of execution of this Agreement, the Underwriters shall have received from Netherland, Sewell & Associates, Inc., independent petroleum engineers for the Company, a letter dated as of such date, in form and substance satisfactory to the Underwriters; and (B) on such Delivery Date, the Underwriters shall have received from Netherland, Sewell and Associates, Inc., independent petroleum engineers for the Company, a letter dated as of such Delivery Date, to the effect that they reaffirm the statements made in the letter referred to in clause (i) (A) above.

(j) The Company shall have furnished to the Underwriters a certificate, dated the such Delivery Date, of (i) the Chairman of the Board, President or a Vice President of the Company and (ii) the Treasurer or Chief Financial Officer of the Company stating that:

(i) The representations, warranties and agreements of the Company in Section 1 are true and correct as of such Delivery Date and the Company has complied with all its agreements contained herein;

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(ii) (A) Neither the Company nor any of the Subsidiaries has sustained since the date of the latest quarterly financial statements included or incorporated by reference in the Preliminary Prospectus or the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Preliminary Prospectus or the Prospectus and (B) since such date there has not been any material change in the capital stock, long-term debt or short-term debt of the Company or any of the Subsidiaries or any material change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity, results of operations or prospects of the Company and the Subsidiaries, taken as a whole, otherwise than as set forth or contemplated in the Preliminary Prospectus or the Prospectus; and

(iii) They have carefully examined the Registration Statement or the Prospectus and, in their opinion (A) the Registration Statement or the Prospectus, as of their respective dates, did not include any untrue statement of a material fact and did not omit to state any material fact necessary to make the statements therein, (in the case of the Prospectus, in the light of the circumstances under which they were made), not misleading, and (B) since the date of the

Prospectus, no event has occurred which should have been set forth in a supplement or amendment to the Prospectus.

(iv) The Prospectus shall have been timely filed with the Commission in accordance with Section 5(a) of this Agreement; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission as of such Delivery Date; and any request of the Commission for inclusion of additional information in the Registration Statement or the Prospectus or otherwise shall have been complied with.

(k) (i) Neither the Company nor any of its Subsidiaries shall have sustained since the date of the latest audited financial statements included or incorporated by reference in the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus and (ii) since such date there shall not have been any material change in the capital stock, long-term debt or short-term debt of the Company or any of its Subsidiaries or any material change, or any development involving a prospective material change, in or affecting the general affairs, management, consolidated financial position, stockholders' equity or results of operations of the Company and its Subsidiaries taken as a whole, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of the Underwriters, so material and adverse as to make it impracticable or inadvisable to proceed with the offering or the delivery of the Stock on the terms and in the manner contemplated in the Prospectus.

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(l) The Underwriters have received Lock-Up Letters referred to in Section 5(i) hereof from each of the Company's executive officers and directors.

(m) Subsequent to the execution and delivery of this Agreement (i) no downgrading shall have occurred in the rating accorded the Company or any of the Subsidiaries or any securities of the Company or any of the Subsidiaries by any "nationally recognized statistical rating organization," as that term is defined by the Commission for purposes of Rule 436(g)(2) of the Rules and Regulations and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Notes.

(n) The Underwriters shall have received from Andrews & Kurth L.L.P., counsel for the Underwriters, their opinion, dated such Delivery Date, with respect to such matters as the Underwriters may reasonably require, and the Company shall have furnished to such counsel such documents and information as they may reasonably request for the purpose of enabling them to pass upon such matters.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Underwriters.

SECTION 8. Indemnification and Contribution.

(a) The Company shall indemnify and hold harmless each Underwriter, its officers and employees and each person, if any, who controls any Underwriter within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of the Stock), to which that Underwriter, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, Registration Statement or the Prospectus or in any amendment or supplement thereto, (ii) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or

supplement thereto, any material fact required to be stated therein or necessary to make the statements therein not misleading or (iii) any act or failure to act, or any alleged act or failure to act, by any Underwriter in connection with, or relating in any manner to, the Stock or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, damage, liability or action arising out of or based upon matters covered by clause (i) or (ii) above (provided that the Company shall not be liable in the case of any matter covered by this clause (iii) to the extent that it is determined in a final judgment by a court of competent jurisdiction that such loss, claim, damage, liability or action resulted directly from any such act or failure to act undertaken or omitted to be taken by such Underwriter through its gross negligence or willful misconduct), and shall reimburse each Underwriter and each officer, employee and controlling person promptly upon demand for any legal or other expenses reasonably incurred by that Underwriter, officer, employee

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or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any such amendment or supplement in reliance upon and in conformity with the written information furnished to the Company by or on behalf of any Underwriter specifically for inclusion therein and described in Section 8(e); provided, further, that with respect to any such untrue statement or omission made in the Preliminary Prospectus, the indemnity agreement contained in this Section 8(a) shall not enure to the benefit of the Underwriter from whom the person asserting any such losses, claims, damages or liabilities purchased the Stock concerned if, to the extent that such sale was an initial sale by such Underwriter and any such loss claim, damage or liability of such Underwriter is a result of the fact that both (A) a copy of the Prospectus was not sent or given to such person at or prior to the written confirmation of the sale of such Stock to such person, and (B) the untrue statement or omission in the Preliminary Prospectus was corrected in the Prospectus unless, in either case, such failure to deliver the Prospectus was a result of noncompliance by the Company with Section 5(c) hereof. The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any Underwriter or to any officer, employee or controlling person of any Underwriter.

(b) Each Underwriter, severally and not jointly, shall indemnify and hold harmless the Company and each person, if any, who controls the Company within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company, any such director, officer or employee, or any controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto or (ii) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto any material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with the written information furnished to the Company by or on behalf of such Underwriter specifically for inclusion therein and described in Section 8(e), and shall reimburse the Company and any such director, officer or employee, or any such controlling person, for any legal or other expenses reasonably incurred by the Company or any such director, officer or employee, or any controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred. The foregoing indemnity agreement is in addition to any liability which any Underwriter may otherwise have to the Company or any such director, officer or employee, or any controlling person.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the

indemnified party shall, if a claim in respect

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thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the claim or the commencement of that action; provided, however, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent it has been materially prejudiced by such failure and, provided further, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that the indemnified party shall have the right to employ counsel to represent all indemnified parties who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the indemnified parties against the indemnifying party under this Section 8 if, (i) the employment of such counsel shall have been authorized by the indemnifying party in connection with the defense of such action, (ii) the indemnifying party shall not have engaged counsel reasonably promptly to take charge of the defense of such action or (iii) counsel for any of the indemnified parties shall have reasonably concluded that there may be defenses available to the indemnified parties that are in addition to or in conflict with those available to the indemnifying party, and, in that event, the fees and expenses of such separate counsel shall be paid by the indemnifying party; provided, further, that in connection with any proceedings or related proceedings in the same jurisdiction, the indemnifying party shall not be liable for the legal fees and expenses of more than one separate firm of attorneys (in addition to any local counsel). No indemnifying party shall (i) without the prior written consent of the indemnified parties (which consent shall not be unreasonably withheld), settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding, or (ii) be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with its written consent or if there be a final judgment of the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss of liability by reason of such settlement or judgment.

(d) If the indemnification provided for in this Section 8 shall for any reason be unavailable to or insufficient to hold harmless an indemnified party under Section 8(a) or 8(b) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative

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benefits received by the Company, on the one hand, and the Underwriters, on the other, from the offering of the Stock or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, on the one hand, and the Underwriters on the other with respect to the statements or omissions which resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative

benefits received by the Company, on the one hand, and the Underwriters on the other, with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Stock purchased under this Agreement (before deducting expenses) received by the Company, on the one hand, and the total underwriting discounts and commissions received by the Underwriters with respect to the Stock purchased under this Agreement, on the other hand, bear to the total gross proceeds from the offering of the Stock under this Agreement, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company, on the one hand, or the Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 8(d) shall be deemed to include, for purposes of this Section 8(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8(d), the Underwriters shall not be required to contribute any amount in excess of the amount by which the total price at which the Stock sold and distributed by it was offered to the purchasers exceeds the amount of any damages which the Underwriters have otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) The Underwriters severally confirm and the Company acknowledges that the statements with respect to the offering of the Stock set forth in the bottom paragraph on the cover page of, the legend concerning stabilization and over-allotment on the inside front cover of the Prospectus, and the seventh, eighth, ninth and tenth paragraphs under the caption "Underwriting" relating to stabilization and over-allotment in, the Prospectus are correct and constitute the only information furnished in writing to the Company by or on behalf of the Underwriters specifically for inclusion in the Prospectus.

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SECTION 9. Defaulting Underwriters.

If, on either Delivery Date, any Underwriter defaults in the performance of its obligations under this Agreement, the remaining non-defaulting Underwriters shall be obligated to purchase the Stock which the defaulting Underwriter agreed but failed to purchase on such Delivery Date in the respective proportions which the number of shares of the Firm Stock set opposite the name of each remaining non-defaulting Underwriter in Schedule I hereto bears to the total number of shares of the Firm Stock set opposite the names of all the remaining non-defaulting Underwriters in Schedule I hereto; provided, however, that the remaining non-defaulting Underwriters shall not be obligated to purchase any of the Stock on such Delivery Date if the total number of shares of the Stock which the defaulting Underwriter or Underwriters agreed but failed to purchase on such date exceeds 9% of the total number of shares of the Stock to be purchased on such Delivery Date, and any remaining non-defaulting Underwriter shall not be obligated to purchase more than 110% of the number of shares of the Stock which it agreed to purchase on such Delivery Date pursuant to the terms of Section 2. If the foregoing maximums are exceeded, the remaining non-defaulting Underwriters, or those other underwriters satisfactory to the Underwriters who so agree, shall have the right, but shall not be obligated, to purchase, in such proportion as may be agreed upon among them, all the Stock to be purchased on such Delivery Date. If the remaining Underwriters or other underwriters satisfactory to the Underwriters do not elect to purchase the shares which the defaulting Underwriter or Underwriters agreed but failed to purchase on such Delivery Date, this Agreement (or, with respect to the Second Delivery Date, the obligation of the Underwriters to purchase, and of the Company to sell, the

Option Stock) shall terminate without liability on the part of any non-defaulting Underwriter or the Company, except that the Company will continue to be liable for the payment of expenses to the extent set forth in Section 6. As used in this Agreement, the term "Underwriter" includes, for all purposes of this Agreement unless the context requires otherwise, any party not listed in Schedule I hereto who, pursuant to this Section 9, purchases Stock which a defaulting Underwriter agreed but failed to purchase.

Nothing contained herein shall relieve a defaulting Underwriter of any liability it may have to the Company for damages caused by its default. If other underwriters are obligated or agree to purchase the Stock of a defaulting or withdrawing Underwriter, either the Underwriters or the Company may postpone the Delivery Date for up to seven full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the Underwriters may be necessary in the Registration Statement, the Prospectus or in any other document or arrangement.

SECTION 10. Termination.

The obligations of the Underwriters hereunder may be terminated by them by notice given to and received by the Company prior to delivery of and payment for the Stock if, prior to that time, (i) trading in securities generally on the New York Stock Exchange or the American Stock Exchange or in the over-the-counter market, or trading in any securities of the Company on any exchange or in the over-the-counter market, shall have been suspended or minimum prices shall have been established on any such exchange or such market by the Commission, by such exchange or by any

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other regulatory body or governmental authority having jurisdiction, (ii) a banking moratorium shall have been declared by Federal or New York State authorities, (iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions (or the effect of international conditions on the financial markets in the United States shall be such); provided, however, in the case of (iii) and (iv) above, as to make it, in the judgment of the Underwriters, impracticable or inadvisable to proceed with the offering or delivery of the Stock on the terms and in the manner contemplated in the Prospectus.

SECTION 11. Reimbursement of Underwriters' Expenses.

If the sale of Stock provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 7 hereof is not satisfied, because of any termination pursuant to Section 10 hereof or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof other than by reason of a default by the Underwriters, the Company shall reimburse the Underwriters for the reasonable fees and expenses of its counsel and for such other out-of-pocket expenses as shall have been incurred by it in connection with this Agreement and the proposed purchase of the Stock, and upon demand the Company shall pay the full amount thereof to the Underwriters.

SECTION 12. Notices, etc.

All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the Underwriters, shall be delivered or sent by mail, telex or facsimile transmission to Lehman Brothers Inc., Three World Financial Center, New York, New York 10285, Attention: Syndicate Department (Fax: 212- 528-8822);

(b) if to the Company shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Prospectus, Attention: Vice President, Finance and Treasurer (Facsimile: 210-828-8600).

Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof.

SECTION 13. Persons Entitled to Benefit of Agreement.

This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Company, and their respective successors. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except that (x) the representations, warranties, indemnities and agreements of the Company contained in this Agreement shall also be deemed to be for the benefit of the officers and employees of the Underwriters and the person or persons, if any, who control the Underwriters within the meaning of Section 15 of the Securities Act and (y) the

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indemnity agreement of the Underwriters contained in Section 8(b) of this Agreement shall be deemed to be for the benefit of directors, officers and employees of the Company and any person controlling the Company within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 13, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

SECTION 14. Survival.

The respective indemnities, representations, warranties and agreements of the Company and the Underwriters contained in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall survive the delivery of and payment for the Stock and shall remain in full force and effect, regardless of any investigation made by or on behalf of any of them or any person controlling any of them.

SECTION 15. Definition of "Business Day."

For purposes of this Agreement, "business day" means any day on which the New York Stock Exchange, Inc. is open for trading.

SECTION 16. Governing Law.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF NEW YORK.

SECTION 17. Counterparts.

This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

SECTION 18. Headings.

The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

* * * * *

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If the foregoing correctly sets forth the agreement between the Company and the Underwriters, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,
TESORO PETROLEUM CORPORATION

By: /s/ BRUCE A. SMITH

Bruce A. Smith
Chairman of the Board, President

Accepted:

LEHMAN BROTHERS INC.
 CIBC OPPENHEIMER
 CREDIT SUISSE FIRST BOSTON
 MERRILL LYNCH & CO.
 SALOMON SMITH BARNEY

By: LEHMAN BROTHERS INC.

By: /s/ H.E. MCGEE III

 (Authorized Representative)

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SCHEDULE I

Name of Underwriter	Number of shares of Firm Stock to be purchased	Number of shares of Option Stock to be purchased (if over-allotment option exercised in full)
Lehman Brothers Inc.	1,000,000	\$ 150,000
CIBC Oppenheimer Corp.	1,000,000	150,000
Credit Suisse First Boston Corporation	1,000,000	150,000
Merrill Lynch, Pierce Fenner & Smith Incorporated	1,000,000	150,000
Smith Barney Inc.	1,000,000	150,000
Total	5,000,000	750,000

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SCHEDULE II

1. Digicomp, Inc.
2. Interior Fuels Company
3. Kenai Pipe Line Company
4. Tesoro Alaska Petroleum Company
5. Tesoro Alaska Pipeline Company
6. Tesoro Bolivia Petroleum Company
7. Tesoro E&p Company, L.P.
8. Tesoro Exploration and Production Company
9. Tesoro Financial Services Holding Company
10. Tesoro Gas Resources Company, Inc.
11. Tesoro Hawaii Corporation
12. Tesoro Latin America Company
13. Tesoro Marine Services, Inc.
14. Tesoro Natural Gas Company
15. Tesoro Northstore Company
16. Tesoro Petroleum Companies, Inc.
17. Tesoro Petroleum South Pacific Company
18. Tesoro Pipeline Company, L.P.
19. Tesoro Refining, Marketing & Supply Company
20. Tesoro Vostok Company
21. Victory Finance Company

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CERTIFICATE OF DESIGNATION
OF
7.25% MANDATORILY CONVERTIBLE PREFERRED STOCK
OF
TESORO PETROLEUM CORPORATION

Pursuant to Section 151 of the General Corporation
Law of the State of Delaware

TESORO PETROLEUM CORPORATION, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Company"), does hereby certify that the following resolution was duly adopted by the Board of Directors of the Company (the "Board") at a special meeting of the Board of Directors held on June 23, 1998:

RESOLVED, that pursuant to the authority conferred upon the Board by the provisions of the Company's Restated Certificate of Incorporation (the "Certificate") and in accordance with Section 151 of the General Corporation Law of the State of Delaware, the Board hereby creates, from the 5,000,000 shares of preferred stock, no par value per share (the "Preferred Stock"), of the Company, authorized to be issued pursuant to the Certificate, a series of Preferred Stock consisting of 103,500 shares of 7.25% Mandatorily Convertible Preferred Stock and hereby fixes the voting powers, designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions of such preferences and/or rights, of the shares of that series as follows:

Section 1. Designation. (a) The shares of the series will be designated as the 7.25% Mandatorily Convertible Preferred Stock (the "Mandatorily Convertible Preferred Stock"). The total number of authorized shares of the Mandatorily Convertible Preferred Stock will be 103,500.

(b) Any shares of the Mandatorily Convertible Preferred Stock that at any time have been acquired upon conversion or otherwise acquired by the Company shall, after such conversion or other acquisition, resume the status of authorized and unissued shares of Preferred Stock without designation as to series until such shares are once more designated as part of a particular series by the Board.

Section 2. Rank.

The shares of Mandatorily Convertible Preferred Stock will rank on parity, both as to payment of dividends and distribution of assets upon liquidation, with any Preferred Stock issued by the Company in the future that by its terms ranks pari passu with the shares of Mandatorily Convertible Preferred Stock.

Section 3. Dividends. (a) The holders of record of the shares of Mandatorily Convertible Preferred Stock shall be entitled to receive, when, as and if declared by the Board out of funds legally available therefor, cash dividends ("Preferred

Dividends") from the date of the initial issuance of the shares of Mandatorily Convertible Preferred Stock at the rate of 7.25% per annum or 1.8125% per

quarter per share of Mandatorily Convertible Preferred Stock, payable quarterly in arrears on January 1, April 1, July 1 and October 1 or, if any such date is not a business day (as defined in Section 7 hereof), the Preferred Dividend due on such date shall be payable on the next succeeding business day (each such payment date being a "Regular Dividend Payment Date"), subject to upward adjustment pursuant to Section 3(c) hereof. The first dividend period will be from the date of initial issuance of the shares of Mandatorily Convertible Preferred Stock to but excluding October 1, 1998 and will be payable on October 1, 1998. Preferred Dividends shall cease to accrue on shares of Mandatorily Convertible Preferred Stock on the Mandatory Conversion Date (as defined in Section 4 hereof) or on the date of their earlier conversion. Preferred Dividends shall be payable to holders of record of shares of Mandatorily Convertible Preferred Stock as they appear on the stock register of the Company on record dates not less than 15 nor more than 60 days preceding the payment date thereof, as shall be fixed by the Board. Preferred Dividends payable on shares of Mandatorily Convertible Preferred Stock for any period less than a full quarterly dividend period (or, in the case of the first Preferred Dividend, from the date of initial issuance of the shares of Mandatorily Convertible Preferred Stock to the first Regular Dividend Payment Date) will be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed in any period less than one month. Preferred Dividends shall accrue on a daily basis (computed as set forth in the immediately preceding sentence) whether or not there are funds of the Company legally available for the payment of such Preferred Dividends and whether or not such Preferred Dividends are declared. Accrued but unpaid Preferred Dividends shall cumulate as of the Regular Dividend Payment Date on which they first become payable, but no interest shall accrue on accumulated but unpaid Preferred Dividends.

(b) Whether or not the Mandatory Conversion Date has occurred,

(i) no dividends (other than dividends payable in shares of, or warrants, rights or options exercisable for or convertible into shares of, any capital stock, including without limitation, the Common Stock, of the Company ranking junior to the Mandatorily Convertible Preferred Stock as to the payment of dividends and the distribution of assets upon liquidation (collectively "Junior Stock") and cash in lieu of fractional shares in connection with any such dividend) may be paid or declared in cash or otherwise, nor may any other distribution by made (other than a distribution payable in Junior Stock and cash in lieu of fractional shares in connection with any such distribution), on any Junior Stock;

(ii) no shares of any Junior Stock may be purchased, redeemed or otherwise acquired by the Company or any of its subsidiaries (except in connection with a reclassification or exchange of any Junior Stock through the issuance of other Junior Stock (and cash in lieu of fractional shares in connection therewith) or the purchase, redemption or other acquisition of any Junior Stock with any Junior Stock (and cash in lieu of fractional shares in connection therewith)) nor may any funds be set aside or made available for any sinking funds for the purchase, redemption or acquisition of any Junior Stock; and

(iii) no dividends or other distributions may be declared or paid on any Preferred Stock (including the Mandatorily Convertible Preferred Stock) that does not constitute Junior Stock ("Parity Preferred Stock") (other than dividends

or other distributions payable in Junior Stock and cash in lieu of fractional shares in connection therewith), and the Company may not purchase, redeem or otherwise acquire any Parity Preferred Stock (except with any Junior Stock and cash in lieu of fractional shares in connection therewith and except with the right, subject to the requirement set out following clause (D) of this paragraph and any similar requirement of any other Preferred Stock, to receive accrued and unpaid dividends)

unless, in the case of either (i) or (ii) or (iii):

(A) full dividends on Parity Preferred Stock have been paid, or declared and set aside for payment, for all dividend periods terminating on or prior to the date of such dividend, distribution, purchase, redemption, acquisition, setting aside or making available, as applicable, to the extent such dividends are cumulative,

(B) dividends in full for the current quarterly dividend period have been paid, or declared and set aside for payment, on all Parity Preferred Stock to the extent such dividends are cumulative,

(C) the Company has paid or set aside all amounts, if any, then or theretofore required to be paid or set aside for all purchase, retirement and sinking funds, if any, for any Parity Preferred Stock, and

(D) the Company is not in default on any of its obligations to redeem any Parity Preferred Stock,

or, in the case of (iii) only, with respect to the declaration and payment of dividends on Parity Preferred Stock, any such dividends are declared and paid pro rata so that the amounts of any dividends declared and paid per share of Mandatorily Convertible Preferred Stock and each other share of Parity Preferred Stock will in all cases bear to each other the same ratio that accrued and unpaid dividends (including any accumulation with respect to unpaid dividends for prior dividend periods, if such dividends are cumulative) per share of Mandatorily Convertible Preferred Stock and such other share of Parity Preferred Stock bear to each other.

(c) If a Reset Transaction (as defined below) has occurred, the dividend rate on the Mandatorily Convertible Preferred Stock shall be increased (but not decreased) to the rate per annum that is the arithmetic average of the rates quoted by two Reference Dealers (as defined in Section 7 hereof) selected by the Company or its successor as the dividend rate that the Mandatorily Convertible Preferred Stock should bear so that the fair market value, expressed in dollars, of a share of Mandatorily Convertible Preferred Stock immediately after the later of (i) the public announcement of such Reset Transaction and (ii) the public announcement of a change in dividend policy in connection with such Reset Transaction but without giving effect to any adjustments pursuant to Sections 4(e)(i) through 4(e)(iv) hereof, shall equal the average Closing Price of a share of Mandatorily Convertible Preferred Stock (it being understood that, in the event any shares of Mandatorily Convertible Preferred Stock are represented by depositary shares, the average Closing Price of the Mandatorily Convertible Preferred Stock shall be determined by reference to the average Closing Price of such depositary shares) for the twenty Trading Days immediately preceding the date of public

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announcement of such Reset Transaction. A "Reset Transaction" is any consolidation, merger, sale, transfer or statutory exchange to which the provisions of Section 4(f) apply or any dividend or distribution to which the provisions of Section 4(e)(iv) apply, as a result of which the Mandatorily Convertible Preferred Stock is convertible on and after the effective date of such transaction into shares (including those of the Company) which either (i) had a Dividend Yield (as defined in Section 7 hereof) for the four fiscal quarters immediately preceding the public announcement of such transaction which was, or (ii) are issued by an entity (including the Company) that has publicly announced a dividend policy prior to the effective date of such transaction which policy, if implemented, would result in a Dividend Yield on such shares for the next four fiscal quarters which would be, more than 250 basis points higher than the Dividend Yield on the Common Stock for the four fiscal quarters immediately preceding the public announcement of such transaction.

(d) Whenever the dividend rate on the Mandatorily Convertible Preferred Stock is increased as provided in Section 3(c), the Company or its successor shall:

(i) forthwith compute the increased dividend rate in accordance with Section 3(c) and prepare a certificate signed by the Chief Financial Officer, any Vice President, the Treasurer or the Controller of the Company or its successor setting forth the increased dividend rate, the applicable rates quoted by the two Reference Dealers selected by the Company or its successor for such rate quotes and the arithmetic average of those rate quotes, and the facts requiring such increase and upon which such increase is based, which certificate shall be conclusive, final and binding evidence of the correctness of the increase, and shall file such certificate forthwith with the transfer agent or agents for the shares of Mandatorily Convertible Preferred Stock and any depository for any shares of Mandatorily Convertible Preferred Stock represented by depository shares;

(ii) make a prompt public announcement stating that the dividend rate on the Mandatorily Convertible Preferred Stock has been increased and setting forth the increased dividend rate; and

(iii) mail a notice stating that the dividend rate on the Mandatorily Convertible Preferred Stock has been increased, the facts requiring such increase and upon which such increase is based and setting forth the increased dividend rate to the holders of record of the outstanding shares of the Mandatorily Convertible Preferred Stock, and, in the event any shares of Mandatorily Convertible Preferred Stock are represented by depository shares, to the holders of record of the depository receipts evidencing such depository shares, no later than 45 days after the end of the Company's fiscal quarter period during which the Reset Transaction resulting in such increase occurred.

Section 4. Conversion Rights. (a) Unless previously converted at the option of the holder into Common Stock in accordance with the provisions of Section 4(c), on July 1, 2001 (the "Mandatory Conversion Date") each outstanding share of Mandatorily Convertible Preferred Stock will convert automatically (the "Mandatory Conversion") into a number of shares of Common Stock at the Conversion Rate (as defined below) in effect on the Mandatory Conversion Date and the holder thereof shall have the right to receive an amount in cash equal to all accrued and unpaid Preferred Dividends on such share of Mandatorily Convertible Preferred Stock (other than

previously declared Preferred Dividends payable to a holder of record as of a prior date) to the Mandatory Conversion Date, whether or not declared, out of funds legally available for the payment of Preferred Dividends, subject to the requirement set forth following clause (D) of Section 3(b) above and any similar requirement of any other Certificate of Designations for Preferred Stock. The "Conversion Rate" is initially equal to (i) if the Conversion Price (as defined in Section 7 hereof) is greater than or equal to \$18.85 (the "Threshold Appreciation Price"), 84.55 shares of Common Stock per share of Mandatorily Convertible Preferred Stock, (ii) if the Conversion Price is less than the Threshold Appreciation Price but is greater than \$15.9375 (the "Initial Price"), (A) a fraction equal to the Initial Price divided by the Conversion Price of (B) 100 shares of Common Stock per share of Mandatorily Convertible Preferred Stock and (iii) if the Conversion Price is less than or equal to the Initial Price, 100 shares of Common Stock per share of Mandatorily Convertible Preferred Stock. The ratios of shares of Common Stock per share of Mandatorily Convertible Preferred Stock specified in clauses (i), (ii) and (iii) of the immediately preceding sentence are hereinafter referred to as the "Share Components". The Share Components are subject to adjustment as set forth in Section 4(e) and the Threshold Appreciation Price and the Initial Price are subject to adjustment as set forth in Section 4(g).

(b) Preferred Dividends on the shares of Mandatorily Convertible Preferred Stock shall cease to accrue and such shares of Mandatorily Convertible Preferred Stock shall cease to be outstanding on the Mandatory Conversion Date. The Company shall make such arrangements as it deems appropriate for the issuance of certificates representing shares of Common Stock and for the payment of cash in respect of accrued and unpaid dividends on the Mandatorily Convertible Preferred Stock, if any, or cash in lieu of fractional

shares, if any, without interest, in exchange for and contingent upon surrender of certificates representing the shares of Mandatorily Convertible Preferred Stock, and the Company may defer the payment of dividends on such shares of Common Stock until, and make such payment contingent upon, the surrender of certificates representing the shares of Mandatorily Convertible Preferred Stock, provided that the Company shall give the holders of the shares of Mandatorily Convertible Preferred Stock such notice of any such actions as the Company deems appropriate and upon such surrender such holders shall be entitled to receive such dividends declared and paid, if any, without interest, on such shares of Common Stock subsequent to the Mandatory Conversion Date.

(c) Shares of Mandatorily Convertible Preferred Stock are convertible, in whole or in part, at the option of the holders thereof ("Optional Conversion"), at any time after July 26, 1998 and prior to the Mandatory Conversion Date, into shares of Common Stock at a rate of 84.55 shares of Common Stock for each share of Mandatorily Convertible Preferred Stock (the "Optional Conversion Rate"), subject to adjustment as set forth in Sections 4(e) and 4(f). Optional Conversion of shares of Mandatorily Convertible Preferred Stock may be effected by delivering certificates evidencing such shares, together with written notice of conversion and proper assignment of such certificates to the Company or in blank (and, if Optional Conversion is to occur after the close of business on a record date for any payment of declared Preferred Dividends and before the opening of business on the next succeeding dividend payment date, payment in cash of an amount equal to the Preferred Dividend payable on such date on such shares), to the office of any transfer agent for the shares of Mandatorily Convertible Preferred Stock or to any other office or agency maintained by the Company for that purpose and otherwise in accordance with Optional Conversion procedures established

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by the Company. Each Optional Conversion shall be deemed to have been effected immediately prior to the close of business on the date on which the foregoing requirements shall have been satisfied. The Optional Conversion shall be at the Optional Conversion Rate in effect at such time on such date.

(d) Holders of shares of Mandatorily Convertible Preferred Stock at the close of business on a record date for any payment of declared Preferred Dividends shall be entitled to receive the Preferred Dividend so declared on such shares of Mandatorily Convertible Preferred Stock on the corresponding dividend payment date notwithstanding the Optional Conversion of such shares of Mandatorily Convertible Preferred Stock following such record date and prior to such dividend payment date. However, shares of Mandatorily Convertible Preferred Stock surrendered for Optional Conversion after the close of business on a record date for any payment of declared Preferred Dividends and before the opening of business on the next succeeding dividend payment date must be accompanied by payment in cash of an amount equal to the Preferred Dividend payable on such date on such shares. Except as provided above, upon any Optional Conversion of shares of Mandatorily Convertible Preferred Stock, the Company shall make no payment of or allowance for unpaid Preferred Dividends, whether or not in arrears, on such shares of Mandatorily Convertible Preferred Stock as to which Optional Conversion has been effected or previously declared dividends or distributions on the shares of Common Stock issued upon such Optional Conversion.

(e) The Conversion Rate and the Optional Conversion Rate are each subject to adjustment from time to time as provided below in this Section 4(e).

(i) If the Company shall pay or make a dividend or other distribution with respect to its Common Stock in shares of Common Stock (including by way of reclassification of any shares of its Common Stock (other than pursuant to any of the transactions set forth in Section 4(f)), each of the Share Components and the Optional Conversion Rate in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be increased by multiplying each Share Component and the Optional Conversion Rate by a fraction of which the numerator shall be the sum of the number of shares of Common Stock

outstanding at the close of business on the date fixed for such determination, excluding the effect of such dividend or distribution, plus the total number of shares of Common Stock constituting such dividend or other distribution, and of which the denominator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination, excluding the effect of such dividend or distribution, such increase to become effective at the opening of business on the day following the date fixed for such determination. For the purposes of this Section 4(e)(i), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company and the number of shares constituting such dividend or other distribution shall include shares represented by cash issued in lieu of fractional shares of Common Stock.

(ii) In case shares of Common Stock outstanding shall be subdivided or split into a greater number of shares of Common Stock, each of the Share Components and the Optional Conversion Rate in effect at the opening of business on the day following the day upon which such subdivision or split

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becomes effective shall be proportionately increased, and, conversely, in case outstanding shares of Common Stock shall be combined into a lesser number of shares of Common Stock, each of the Share Components and the Optional Conversion Rate in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately reduced, such increases or reductions, as the case may be, to become effective at the opening of business on the day following the day upon which such subdivision or split or combination becomes effective.

(iii) If the Company shall, after the date hereof, issue rights or warrants to all holders of its Common Stock entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the Current Market Price (as defined in Section 7 hereof) of the Common Stock on the record date for the determination of stockholders entitled to receive such rights or warrants, then in each case each of the Share Components and the Optional Conversion Rate shall be adjusted by multiplying such Share Components and the Optional Conversion Rate in effect on such record date by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the record date for issuance of such rights or warrants, excluding the effect of such issuance, plus the number of additional shares of Common Stock offered for subscription or purchase pursuant to such rights or warrants, and of which the denominator shall be the number of shares of Common Stock outstanding at the close of business on the record date for issuance of such rights or warrants, excluding the effect of such issuance, plus the number of shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so offered for subscription or purchase pursuant to such rights or warrants would purchase at such Current Market Price (determined by multiplying such total number of offered shares by the exercise price of such rights or warrants and dividing the product so obtained by such Current Market Price). Such adjustment shall become effective at the opening of business on the business day next following the record date for the determination of stockholders entitled to receive such rights or warrants. Shares of Common Stock held by the Company or by another company of which a majority of the shares entitled to vote in the election of directors are held, directly or indirectly, by the Company shall not be deemed to be outstanding for purposes of such computation. Any shares of Common Stock issuable in payment of a dividend shall be deemed to have been issued immediately prior to the close of business on the record date for such dividend for purposes of calculating the number of outstanding shares of Common Stock under this Section 4(e)(iii). To the extent that shares of Common Stock are not delivered by reason of the expiration of such rights or warrants, each of the Share Components and the Optional Conversion Rate

shall be readjusted to the Share Components and the Optional Conversion Rate which would then be in effect had the adjustments made by reason of the issuance of such rights or warrants been made upon the basis of the issuance of rights or warrants in respect of only the number of shares of Common Stock actually delivered.

(iv) If the Company shall pay a dividend or make a distribution to all holders of Common Stock consisting of evidences of its indebtedness, cash or other assets (including shares of capital stock of the Company other than dividends or distributions of Common Stock (or other common stock of the

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Company issued by way of reclassification) referred to in Section 4(e) (i) above but excluding any cash dividends or distributions, other than Extraordinary Cash Distributions (as defined below), or shall issue to all holders of Common Stock rights or warrants to subscribe for or purchase any of its securities (other than those referred to in Section 4(e) (iii) above), then in each such case each of the Share Components and the Optional Conversion Rate shall be adjusted by multiplying such Share Components and the Optional Conversion Rate in effect on the record date for such dividend or distribution or for the determination of stockholders entitled to receive such rights or warrants, as the case may be, by a fraction of which the numerator shall be the Current Market Price per share of the Common Stock on such record date, and of which the denominator shall be such Current Market Price per share of Common Stock less either (A) the fair market value (as determined by the Board, whose determination shall be conclusive) on such record date of the portion of the assets or evidences of indebtedness so distributed, or of such rights or warrants, applicable to one share of Common Stock or (B) if applicable, the amount of the Extraordinary Cash Distribution applicable to one share of Common Stock. Such adjustment shall become effective at the opening of business on the business day next following the record date for such dividend or distribution or for the determination of holders entitled to receive such rights or warrants, as the case may be. "Extraordinary Cash Distribution" means, with respect to any cash dividend or distribution paid on any date, the amount, if any, by which all cash dividends or distributions on the Common Stock paid during the consecutive 12-month period ending on and including such date (other than cash dividends and cash distributions for which a prior adjustment to each of the Share Components and the Optional Conversion Rate was previously made), exceeds, on a per share of Common Stock basis, ten percent (10%) of the average daily Closing Price of the Common Stock over such consecutive 12-month period.

(v) Anything in this Section 4 notwithstanding, the Company shall be entitled (but shall not be required) to make such upward adjustments in each of the Share Components and the Optional Conversion Rate in addition to those set forth by this Section 4, as the Company, in its sole discretion, shall determine to be advisable, in order that any stock dividend, subdivision or split of stock, distribution of rights to purchase stock or securities, or distribution of securities convertible into or exchangeable for stock (or any transaction that could be treated as any of the foregoing transactions pursuant to Section 305 of the Internal Revenue Code of 1986, as amended, or any successor provision) hereafter made by the Company to its stockholders will not be taxable in whole or in part.

(vi) All adjustments to each of the Share Components and the Optional Conversion Rate shall be calculated to the nearest 1/100th of a share of Common Stock. No adjustment in the Share Components or the Optional Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) therein; provided, however, that any adjustments which are not made by reason of this subsection shall be carried forward and taken into account in any subsequent adjustment. All adjustments to the Share Components and the Optional Conversion Rate shall be made successively.

(vii) Prior to taking any action that could result in adjustment affecting the Conversion Rate or the Optional Conversion Rate such that the imputed

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conversion price for shares of Common Stock issued upon Mandatory Conversion or upon Optional Conversion would be below the then par value of the Common Stock, the Company shall take any corporate action which may, in the opinion of its Board, be necessary in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock at the Conversion Rate or the Optional Conversion Rate as so adjusted.

(f) In case of any consolidation or merger to which the Company is a party (other than a merger or consolidation in which the Company is the surviving or continuing corporation and in which each share of Common Stock outstanding immediately prior to the merger or consolidation remains unchanged in all material respects), or in case of any sale or transfer to another corporation of the property of the Company as an entirety or substantially as an entirety, or in the case of any statutory exchange of securities with another corporation (other than in connection with a merger or acquisition), each share of Mandatorily Convertible Preferred Stock shall, after consummation of such transaction, be subject to (i) conversion at the option of the holder into the kind and amount of securities, cash or other property receivable upon consummation of such transaction by a holder of the number of shares of Common Stock (including fractional shares for this purpose) into which such share of Mandatorily Convertible Preferred Stock might have been converted immediately prior to consummation of such transaction (or, if such transaction is consummated prior to July 26, 1998, into which such share of Mandatorily Convertible Preferred Stock might have been converted immediately prior to consummation of such transaction if such conversion had occurred immediately after such date) and (ii) conversion on the Mandatory Conversion Date into the kind and amount of securities, cash or other property receivable upon consummation of such transaction by a holder of the number of shares of Common Stock (including fractional shares for this purpose) into which such share of Mandatorily Convertible Preferred Stock would have been converted if the conversion on the Mandatory Conversion Date had occurred immediately prior to the date of consummation of such transaction, plus, in the case of (ii), the right, subject to the requirement set forth following clause (D) of Section 3(b) and any similar requirement of any other Certificate of Designations for Preferred Stock, to receive cash in an amount equal to all accrued and unpaid dividends on such share of Mandatorily Convertible Preferred Stock (other than previously declared dividends payable to a holder of record as of a prior date); and assuming in each case that such holder of shares of Common Stock failed to exercise rights of election, if any, as to the kind or amount of securities, cash or other property receivable upon consummation of such transaction (provided that, if the kind or amount of securities, cash or other property receivable upon consummation of such transaction is not the same for each non-electing share, then the kind and amount of securities, cash or other property receivable upon consummation of such transaction for each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the non-electing shares). The kind and amount of securities into or for which the shares of Mandatorily Convertible Preferred Stock shall be convertible after consummation of such transaction shall be subject to adjustment as described in Section 4(e) following the date of consummation of such transaction. The Company may not become a party to any such transaction unless the terms thereof are consistent with the foregoing and with the provisions of Section 3(c).

(g) If an adjustment is made to the Share Components pursuant to any of Sections 4(e) (i) through 4(e) (iv), an adjustment shall also be made to the Threshold Appreciation Price and the Initial Price as such terms are used to determine which of

clauses (i), (ii) or (iii) of the definition of "Conversion Rate" will apply at the Mandatory Conversion Date and for purposes of calculating the fraction in sub-clause (ii) (A) of the definition of Conversion Rate. The required adjustments to the Threshold Appreciation Price and the Initial Price shall be made at the Mandatory Conversion Date by multiplying each of the Threshold Appreciation Price and the Initial Price by the inverse of the cumulative number or fraction determined pursuant to the Share Component adjustment procedures described in Section 4(e). In the case of the reclassification of any shares of Common Stock into any common stock other than Common Stock, such common stock shall be deemed Common Stock solely to determine the Threshold Appreciation Price and the Initial Price and to apply the Conversion Rate at the Mandatory Conversion Date. Each such adjustment to the Threshold Appreciation Price or the Initial Price shall be made successively.

(h) Whenever the Share Components and the Optional Conversion Rate are adjusted as provided in Section 4(e) and 4(g), the Company shall:

(i) forthwith compute the adjusted Share Components, Optional Conversion Rate, Threshold Appreciation Price and Initial Price in accordance with this Section 4 and prepare a certificate signed by the Chief Financial Officer, any Vice President, the Treasurer or the Controller of the Company setting forth the adjusted Share Components, Optional Conversion Rate, Threshold Appreciation Price and Initial Price, the method of calculation thereof in reasonable detail and the facts requiring such adjustment and upon which such adjustment is based, which certificate shall be conclusive, final and binding evidence of the correctness of the adjustment, and shall file such certificate forthwith with the transfer agent or agents for the shares of Mandatorily Convertible Preferred Stock and any depositary for any shares of Mandatorily Convertible Preferred Stock represented by depositary shares;

(ii) make a prompt public announcement stating that the Share Components, Optional Conversion Rate, Threshold Appreciation Price and Initial Price have been adjusted and setting forth the adjusted Share Components, Optional Conversion Rate, Threshold Appreciation Price and Initial Price, including, in the event any shares of Mandatorily Convertible Preferred Stock are represented by depositary shares, the adjusted Share Components or Optional Conversion Rate on a per depositary share basis; and

(iii) mail a notice stating that the Share Components, Optional Conversion Rate, Threshold Appreciation Price and Initial Price have been adjusted, the facts requiring such adjustment and upon which such adjustment is based and setting forth the adjusted Share Components, Optional Conversion Rate, Threshold Appreciation Price and Initial Price to the holders of record of the outstanding shares of the Mandatorily Convertible Preferred Stock, and, in the event any shares of Mandatorily Convertible Preferred Stock are represented by depositary shares, to the holders of record of the depositary receipts evidencing such depositary shares, no later than 45 days after the end of the Company's fiscal quarter period during which the facts requiring such adjustment occurred.

(i) In case, at any time while any of the shares of Mandatorily Convertible Preferred Stock are outstanding,

(i) the Company shall declare a dividend (or any other distribution) on the Common Stock, excluding any cash dividends other than Extraordinary Cash Distributions, or

(ii) the Company shall authorize the issuance to all holders of the Common Stock of rights or warrants to subscribe for or purchase shares of the Common Stock or of any other subscription rights or warrants, or

(iii) the Company shall authorize any reclassification of the Common Stock (other than a subdivision, split or combination thereof) or of any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required (except for a merger of the Company into one of its subsidiaries solely for the purpose of changing the corporate domicile of the Company to another state of the United States and in connection with which there is no substantive change in the rights or privileges of any securities of the Company other than changes resulting from differences in the corporate statutes of the state the Company was then domiciled in and the new state of domicile), or of the sale or transfer of all or substantially all the assets of the Company (except to one or more wholly owned subsidiaries),

then the Company shall cause to be filed at each office or agency maintained for the purpose of conversion of the shares of Mandatorily Convertible Preferred Stock, and shall cause to be mailed to the holders of shares of Mandatorily Convertible Preferred Stock at their last addresses as they shall appear on the stock register, and, in the event any shares of Mandatorily Convertible Preferred Stock are represented by depositary shares, to the holders of record of the depositary receipts evidencing such depositary shares, at least 10 business days before the date specified in clause (A) or (B) below (or the earlier of such specified dates, in the event that more than one date is specified), a notice stating (A) the date on which a record is to be taken for the purpose of such dividend, distribution, or issuance of rights or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, or issuance of rights or warrants are to be determined, or (B) the date on which any such reclassification, consolidation, merger, sale or transfer is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their Common Stock for securities or other property (including cash), if any, deliverable upon such reclassification, consolidation, merger, sale or transfer. The failure to give or receive the notice required by this subsection (i) or any defect therein shall not affect the legality or validity of any such dividend, distribution, issuance of any right or warrant or other action.

5. No Fractional Shares. (a) No fractional shares of Common Stock shall be issued upon the conversion of any shares of the Mandatorily Convertible Preferred Stock. In lieu of any fractional share otherwise issuable in respect of shares of Mandatorily Convertible Preferred Stock of any holder that are converted upon Mandatory Conversion or any Optional Conversion, such holder shall be entitled to receive an amount in cash (computed to the nearest cent) equal to the same fraction of the Closing Price of the Common Stock determined (a) as of the fifth Trading Day immediately preceding the Mandatory Conversion Date, in the case of Mandatory Conversion, or (b) as of the second Trading Day immediately preceding the effective date of conversion, in the case of an Optional Conversion by a holder. At any time that any shares of Mandatorily Convertible Preferred Stock are represented by depositary

shares pursuant to a depositary agreement with the Company, the Company may treat each holder of such depositary shares as a holder of the number (including fractions) of shares of Mandatorily Convertible Preferred Stock represented by the depositary shares of such holder for the purposes of computing the fractional shares of Common Stock otherwise issuable in respect of the conversion of any shares of Mandatorily Convertible Preferred Stock or the payment of any dividend.

(b) If payment in cash in lieu of fractional shares of Common Stock in accordance with the preceding paragraph would result in the Company's failure to be in compliance with any debt instrument to which it is a party, the Company shall be entitled to deliver a whole share of Common Stock in lieu of

cash to holders of shares of Mandatorily Convertible Preferred Stock (or depositary shares representing shares of Mandatorily Convertible Preferred Stock) entitled to fractional shares of Common Stock (beginning with the holders entitled to the largest fractional shares) until delivery of cash in lieu of fractional shares of Common Stock to the remaining holders would no longer result in the Company's failure to be in compliance with such debt instrument.

6. Reservation of Common Stock. The Company shall at all times reserve and keep available out of its authorized and unissued Common Stock, solely for issuance upon the conversion of shares of Mandatorily Convertible Preferred Stock as herein provided, free from any preemptive rights, such maximum number of shares of Common Stock as shall from time to time be issuable upon the Mandatory Conversion or Optional Conversion of all the shares of Mandatorily Convertible Preferred Stock then outstanding.

7. Certain Definitions. As used in this Certificate of Designations:

(i) the term "business day" shall mean any day other than a Saturday, a Sunday or a day on which the NYSE, banking institutions or trust companies in New York, New York, are authorized or obligated by law or executive order to close;

(ii) the term "Closing Price" of any security shall mean on any date of determination (i) the closing sale price (or, if no closing sale price is reported, the last reported sale price) of such security (regular way) on the New York Stock Exchange (the "NYSE") on such date, (ii) if such security is not listed for trading on the NYSE on any such date, as reported in the composite transactions for the principal United States securities exchange on which such security is so listed, (iii) if such security is not so listed on a United States securities exchange, as reported by the NASDAQ Stock Market, (iv) if such security is not so reported, the last quoted bid price for such security in the over-the-counter market as reported by the National Quotation Bureau or similar organization, or (v) if such security is not so quoted, the average of the mid-point of the last bid and ask prices for such security from each of at least three nationally recognized investment banking firms selected by the Company for such purpose;

(iii) the term "Conversion Price" shall mean the average Closing Price per share of Common Stock for the 20 Trading Days immediately prior to (but not including) the Mandatory Conversion Date; provided, however, that, if there are not 20 Trading Days for the Common Stock occurring later than the 60th calendar day immediately prior to, but not including, the Mandatory Conversion Date, the

"Conversion Price" shall be the market value per share of Common Stock as of the Mandatory Conversion Date as determined by a nationally recognized investment banking firm retained for such purpose by the Company;

(iv) the term "Current Market Price" means, as of any date of determination, the average Closing Price per share of Common Stock for the 20 Trading Days immediately prior to the date of determination; provided, however, that if there are not 20 Trading Days for the Common Stock occurring later than the 60th calendar day immediately prior to, but not including, such date, the Current Market Price shall be determined as the market value per share of Common Stock as of such date as determined by a nationally recognized investment banking firm retained for such purpose by the Company;

(v) the term "Dividend Yield" shall mean, with respect to any security for any period, the dividends paid or proposed to be paid pursuant to an announced dividend policy on such security for such period divided by, if with respect to dividends paid on such security, the average Closing Price of such security during such period and, if with respect to dividends so proposed to be paid on such security, the

Closing Price of such security on the effective date of the related Reset Transaction;

(vi) the term "record date" shall be such date as is from time to time fixed by the Board with respect to the receipt of dividends or the taking of any action or exercise of any voting rights permitted hereby; and

(vii) the term "Reference Dealer" shall mean a dealer engaged in the trading of convertible securities;

(viii) the term "Trading Day" shall mean a business day on which the security, the Closing Price of which is being determined, (A) is not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the close of business and (B) has traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of such security.

8. Payment of Taxes. The Company shall pay any and all documentary, stamp or similar issue or transfer taxes payable in respect of the issue or delivery of shares of Common Stock on the conversion of shares of Mandatorily Convertible Preferred Stock pursuant to Section 4; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any registration or transfer involved in the issue or delivery of shares of Common Stock in a name other than that of the registered holder of shares of Mandatorily Convertible Preferred Stock converted or to be converted, and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid.

9. Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, and subject to the rights of the holders of any other series of Preferred Stock, the holders of outstanding shares of Mandatorily Convertible Preferred Stock are entitled to receive the sum of \$1,593.75 per share, plus an amount equal to any accrued and unpaid dividends thereon, out of the

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assets of the Company available for distribution to stockholders, before any distribution of assets is made to holders of Junior Stock upon liquidation, dissolution or winding up. If upon any voluntary or involuntary liquidation, dissolution, or winding up of the Company, the assets of the Company are insufficient to permit the payment of the full preferential amounts payable with respect to shares of Mandatorily Convertible Preferred Stock and all other series of Parity Preferred Stock, the holders of shares of Mandatorily Convertible Preferred Stock and of all other series of Parity Preferred Stock shall share ratably in any distribution of assets of the Company in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of shares of Mandatorily Convertible Preferred Stock will not be entitled to any further participation in any distribution of assets by the Company. A consolidation or merger of the Company with one or more corporations or a sale or transfer of substantially all the assets of the Company shall not be deemed to be a liquidation, dissolution, or winding up of the Company.

10. Voting Rights. The holders of shares of Mandatorily Convertible Preferred Stock shall not be entitled to any voting rights, except as required by applicable state law or as described below.

(a) In the event that dividends on the shares of Mandatorily Convertible Preferred Stock or any other series of Preferred Stock shall be in arrears and unpaid for six quarterly dividend periods, or if any other series of Preferred Stock shall be entitled for any other reason to exercise voting rights, separate from the Common Stock, to elect any Directors of the Company ("Preferred Stock Directors"), the holders of the shares of Mandatorily

Convertible Preferred Stock (voting separately as a class with holders of all other series of Preferred Stock which does not have a separate class vote and upon which like voting rights have been conferred and are exercisable), with each share of Mandatorily Convertible Preferred Stock entitled to 100 votes on this and other matters in which Preferred Stock votes as a group, shall be entitled to vote for the election of two Preferred Stock Directors, such Directors to be in addition to the number of Directors constituting the Board immediately prior to the accrual of such right. Such right, when vested, shall continue until all dividends in arrears on the shares of Mandatorily Convertible Preferred Stock and such other series of Preferred Stock shall have been paid in full and the right of any other series of Preferred Stock to exercise voting rights, separate from the Common Stock, to elect any Preferred Stock Directors shall terminate or have terminated, and, when so paid and such termination occurs or has occurred, such right of the holders of the shares of Mandatorily Convertible Preferred Stock shall cease. Upon any termination of the aforesaid voting right, subject to the requirements of the General Corporation Law of the State of Delaware and the Certificate, such Preferred Stock Directors shall cease to be Directors of the Company and shall be required to resign.

(b) The Company will not, without the approval of the holders of at least 66-2/3% of all the shares of Mandatorily Convertible Preferred Stock then outstanding: (i) amend, alter, or repeal any of the provisions of the Certificate or the By-laws of the Company so as to affect adversely the powers, preferences or rights of the holders of the shares of Mandatorily Convertible Preferred Stock then outstanding or reduce the minimum time required for any notice to which only the holders of the shares of Mandatorily Convertible Preferred Stock then outstanding may be entitled (an amendment of the Certificate to authorize or create, or to increase the authorized amount

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of or to issue, Junior Stock, Preferred Stock ranking on parity with the shares of Mandatorily Convertible Preferred Stock or any stock of any class ranking on parity with the shares of Mandatorily Convertible Preferred Stock shall be deemed not to affect adversely the powers, preferences or rights of the holders of the shares of Mandatorily Convertible Preferred Stock); (ii) create any series of Preferred Stock ranking prior to the shares of Mandatorily Convertible Preferred Stock as to payment of dividends or the distribution of assets upon liquidation; or (iii) authorize or create, or increase the authorized amount of, any capital stock, or any security convertible into capital stock, of any class ranking prior to the shares of Mandatorily Convertible Preferred Stock as to payment of dividends or the distribution of assets upon liquidation.

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11. Severability of Provisions. Whenever possible, each provision hereof shall be interpreted in a manner as to be effective and valid under applicable law, but if any provision hereof is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating or otherwise adversely affecting the remaining provisions hereof. If a court of competent jurisdiction should determine that a provision hereof would be valid or enforceable if a period of time were extended or shortened or a particular percentage were increased or decreased, then such court may make such change as shall be necessary to render the provision in question effective and valid under applicable law.

IN WITNESS WHEREOF, Tesoro Petroleum Corporation has caused this Certificate of Designation to be signed by James C. Reed, Jr., its Executive Vice President, General Counsel and Secretary, and attested by , its Assistant Secretary, as of this 25th day of June, 1998.

TESORO PETROLEUM CORPORATION,

By /s/ BRUCE A. SMITH

Name: Bruce A. Smith
Title: Chairman, President, and Chief
Executive Officer

Attest:

By /s/ JAMES C. REED, JR.

Name: James C. Reed, Jr.
Title: Secretary

=====

TESORO PETROLEUM CORPORATION

AS ISSUER

AND

THE BANK OF NEW YORK

AS DEPOSITARY

AND

OWNERS AND HOLDERS OF DEPOSITARY RECEIPTS

DEPOSIT AGREEMENT

DATED AS OF JULY 1, 1998

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DEPOSIT AGREEMENT

DEPOSIT AGREEMENT dated as of July 1, 1998 among TESORO PETROLEUM CORPORATION, incorporated under the laws of Delaware (herein called the Issuer), THE BANK OF NEW YORK, a New York banking corporation (herein called the Depositary), and all Owners and holders from time to time of Depositary Receipts issued hereunder.

W I T N E S S E T H :

WHEREAS, the Issuer desires to provide, as hereinafter set forth in this Deposit Agreement, for the deposit of Shares (as hereinafter defined) of the Issuer with the Depositary for the purposes set forth in this Deposit Agreement, for the creation of Depositary Shares representing the Shares so deposited and for the execution and delivery of Depositary Receipts evidencing the Depositary Shares; and

WHEREAS, the Depositary Receipts are to be substantially in the form of Exhibit A annexed hereto, with appropriate insertions, modifications and omissions, as hereinafter provided in this Deposit Agreement;

NOW, THEREFORE, in consideration of the premises, it is agreed by and among the parties hereto as follows:

ARTICLE I

DEFINITIONS

The following definitions shall for all purposes, unless otherwise clearly indicated, apply to the respective terms used in this Deposit Agreement:

SECTION 1.1 Depositary Shares.

The term "Depositary Shares" shall mean the securities representing the interests in the Deposited Securities and evidenced by the Receipts issued hereunder. Each Depositary Share shall represent 1/100 of a Share and the same proportional interest in any and all other securities, property and cash received by the Depositary in respect thereof and held hereunder, until there shall occur a change in Deposited Securities covered by Section 4.7 with respect to which additional Receipts are not executed and delivered, and thereafter Depositary Shares shall evidence the amount of Shares or Deposited Securities specified in such Section.

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SECTION 1.2 Article; Section.

Wherever references are made in this Deposit Agreement to an "Article" or "Articles" or to a "Section" or "Sections", such references shall mean an article or articles or a section or sections of this Deposit Agreement, unless otherwise required by the context.

SECTION 1.3 Certificate of Designation.

The term "Certificate of Designation" shall mean the Certificate of Designation adopted by the Board of Directors of the Issuer establishing and setting forth the rights, preferences, privileges and limitations of the Shares.

SECTION 1.4 Closing Price.

The term "Closing Price" of any security shall mean on any date of determination (i) the closing sale price (or, if no closing sale price is reported, the last reported sale price) of such security (regular way) on the New York Stock Exchange (the "NYSE") on such date, (ii) if such security is not listed for trading on the NYSE on any such date, as reported in the composite transactions for the principal United States securities exchange on which such security is so listed, (iii) if such security is not so listed on a United States securities exchange, as reported by the NASDAQ Stock Market, (iv) if such security is not so reported, the last quoted bid price for such security in the over-the-counter market as reported by the National Quotation Bureau or similar organization, or (v) if such security is not so quoted, the average of the mid-point of the last bid and ask prices for such security from each of at least three nationally recognized investment banking firms selected by the Issuer for such purpose.

SECTION 1.5 Commission.

The term "Commission" shall mean the Securities and Exchange Commission of the United States or any successor governmental agency in the United States.

SECTION 1.6 Deposit Agreement.

The term "Deposit Agreement" shall mean this Agreement, as the same may be amended from time to time in accordance with the provisions hereof.

SECTION 1.7 Depositary; Corporate Trust Office.

The term "Depository" shall mean The Bank of New York, a New York banking corporation and any successor as depository hereunder. The term "Corporate Trust Office", when used with respect to the Depository, shall mean the office of the Depository which at the date of this Agreement is 101 Barclay Street, New York, New York, 10286.

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SECTION 1.8 Deposited Securities.

The term "Deposited Securities" as of any time shall mean Shares at such time deposited under this Deposit Agreement and any and all other securities, property and cash received by the Depository in respect thereof and at such time held hereunder.

SECTION 1.9 Issuer.

The term "Issuer" shall mean Tesoro Petroleum Corporation, incorporated under the laws of Delaware, and its successors.

SECTION 1.10 Owner.

The term "Owner" shall mean the person in whose name a Receipt is registered on the books of the Depository maintained for such purpose.

SECTION 1.11 Receipts.

The term "Receipts" shall mean the Depository Receipts issued hereunder evidencing Depository Shares.

SECTION 1.12 Registrar.

The term "Registrar" shall mean any bank or trust company having an office in the Borough of Manhattan, The City of New York, which shall be appointed to register Receipts and transfers of Receipts as herein provided.

SECTION 1.13 Securities Act of 1933.

The term "Securities Act of 1933" shall mean the United States Securities Act of 1933, as from time to time amended.

SECTION 1.14 Shares.

The term "Shares" shall mean the Issuer's 7.25% Mandatorily Convertible Preferred Stock, no par value per share, heretofore validly issued and outstanding and fully paid, nonassessable and free of any pre-emptive rights of the holders of outstanding capital stock of the Issuer or hereafter validly issued and outstanding and fully paid, nonassessable and free of any pre-emptive rights of the holders of outstanding capital stock of the Issuer or interim certificates representing such Shares.

SECTION 1.15 Trading Day; Business Day.

The term "Trading Day" shall mean a business day on which the security, the Closing Price of which is being determined, (i) is not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the close of business and (ii) has traded at least once on the national or regional securities exchange or association or over-the-counter

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market that is the primary market for the trading of such security. The term "Business Day" shall mean any day that is not a Saturday, a Sunday or a day on which the NYSE, banking institutions or trust companies in The City of New York are authorized or obligated by law or executive order to close.

ARTICLE II

FORM OF RECEIPTS, DEPOSIT OF SHARES, EXECUTION AND DELIVERY, TRANSFER AND SURRENDER OF RECEIPTS

SECTION 2.1 Form and Transferability of Receipts.

Definitive Receipts shall be substantially in the form set forth in Exhibit A annexed to this Deposit Agreement, with appropriate insertions, modifications and omissions, as hereinafter provided. No Receipt shall be entitled to any benefits under this Deposit Agreement or be valid or obligatory for any purpose, unless such Receipt shall have been executed by the Depositary by the manual or facsimile signature of a duly authorized signatory of the Depositary and, if a Registrar for the Receipts shall have been appointed, countersigned by the manual or facsimile signature of a duly authorized officer of the Registrar. The Depositary shall maintain books on which each Receipt so executed and delivered as hereinafter provided and the transfer of each such Receipt shall be registered. Receipts bearing the manual or facsimile signature of a duly authorized signatory of the Depositary who was at any time a proper signatory of the Depositary shall bind the Depositary, notwithstanding that such signatory has ceased to hold such office prior to the execution and delivery of such Receipts by the Registrar or did not hold such office on the date of issuance of such Receipts.

The Receipts may be endorsed with or have incorporated in the text thereof such legends or recitals or modifications not inconsistent with the provisions of this Deposit Agreement as may be required by the Depositary or required to comply with any applicable law or regulations thereunder or with the rules and regulations of any securities exchange upon which Depositary Shares may be listed or to indicate any special limitations or restrictions to which any particular Receipts are subject by reason of the date of issuance of the underlying Deposited Securities or otherwise.

Title to a Receipt (and to the Depositary Shares evidenced thereby), when properly endorsed or accompanied by

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proper instruments of transfer, shall be transferable by delivery with the same effect as in the case of a negotiable instrument; provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the Owner thereof as the absolute owner thereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in this Deposit Agreement and for all other purposes.

SECTION 2.2 Deposit of Shares.

Subject to the terms and conditions of this Deposit Agreement, Shares may be deposited by delivery thereof by the Issuer to the Depositary on any closing date for the sale of the Depositary Shares representing such Shares to underwriters in connection with the public offering of such Depositary Shares, accompanied by any appropriate instrument or instruments of transfer, or endorsement, in form satisfactory to the Depositary, together with all such certifications as may be required by the Depositary in accordance with the provisions of this Deposit Agreement, and, if the Depositary requires, together with a written order directing the Depositary to execute and deliver to, or upon the written order of, the Issuer, a Receipt or Receipts for the number of Depositary Shares representing such deposit. All Shares so deposited shall be recorded in the name of the Depositary on the books of the Issuer.

Deposited Securities shall be held by the Depositary for the account and to the order of the Depositary at its Corporate Trust Office or at such other place or places as the Depositary shall determine.

SECTION 2.3 Execution and Delivery of Receipts.

Upon receipt by the Depositary of any deposit pursuant to Section 2.2 hereunder (and in addition, if the transfer books of the Issuer are open, the Depositary may in its sole discretion require a proper acknowledgment or other evidence from the Issuer that any Deposited Securities have been recorded upon the books of the Issuer in the name of the Depositary or its nominee), together with the other documents required as above specified, the Depositary, subject to the terms and conditions of this Deposit Agreement, shall execute and deliver at its Corporate Trust Office, to or upon the written order of the Issuer, a Receipt or Receipts, registered in the name or names and evidencing any authorized number of Depositary Shares deliverable in respect of such deposit requested by the Issuer, but only upon payment to the Depositary of all taxes and governmental charges and stock transfer and registration

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fees payable in connection with such deposit and the transfer of the Deposited Securities.

SECTION 2.4 Transfer of Receipts; Combination and Split-up of Receipts.

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall register transfers of Receipts on its transfer books from time to time, upon any surrender of a Receipt, by the Owner in person or by a duly authorized attorney, properly endorsed or accompanied by proper instruments of transfer, and duly stamped as may be required by the laws of the State of New York and of the United States of America. Thereupon the Depositary shall execute a new Receipt or Receipts and deliver the same to or upon the order of the person entitled thereto.

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall upon surrender of a Receipt or Receipts for the purpose of effecting a split-up or combination of such Receipt or Receipts, execute and deliver a new Receipt or Receipts for any authorized number of Depositary Shares requested, evidencing the same aggregate number of Depositary Shares as the Receipt or Receipts surrendered.

The Depositary may appoint one or more co-transfer agents for the purpose of effecting transfers, combinations and split-ups of Receipts at designated transfer offices on behalf of the Depositary. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by Owners or persons entitled to Receipts and will be entitled to protection and indemnity to the same extent as the Depositary.

SECTION 2.5 Surrender of Receipts and Withdrawal of Shares.

Upon surrender at the Corporate Trust Office of the Depositary of a Receipt for the purpose of withdrawal of the Deposited Securities (it being understood that, with respect to any withdrawal of Shares, only whole Shares may be withdrawn) represented by the Depositary Shares evidenced by such Receipt, and upon payment of all taxes and governmental charges payable in connection with such surrender and withdrawal of the Deposited Securities, and subject to the terms and conditions of this Deposit Agreement, the Owner of such Receipt shall be entitled to delivery, to him or upon his order, of the amount of Deposited Securities at the time represented by the Depositary Shares evidenced by such Receipt. Delivery of

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such Deposited Securities may be made by the delivery of (i) certificates for Shares being withdrawn in the name of such Owner or as ordered by him or by certificates for Shares being withdrawn properly endorsed or accompanied by proper instruments of transfer to such Owner or as ordered by him and (ii) any other securities, property and cash to which such Owner is then entitled in respect of such Receipt to such Owner or as ordered by him. Such delivery shall be made, as hereinafter provided, without unreasonable delay.

A Receipt surrendered for such purposes may be required by the Depositary to be properly endorsed in blank or accompanied by proper instruments of transfer in blank, and if the Depositary so requires, the Owner thereof shall execute and deliver to the Depositary a written order directing the Depositary to cause the Deposited Securities being withdrawn to be delivered to or upon the written order of a person or persons designated in such order. Thereupon the Depositary shall, subject to Sections 2.6, 3.1 and 3.2 and to the other terms and conditions of this Deposit Agreement, deliver at the Corporate Trust Office to or upon the written order of the person or persons designated in the order delivered to the Depositary as above provided, the amount of Deposited Securities represented by the Depositary Shares evidenced by such Receipt.

SECTION 2.6 Limitations on Execution and Delivery, Transfer and Surrender of Receipts.

As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any Receipt or withdrawal of any Deposited Securities or the exercise of any conversion right referred to in Section 2.10, the Depositary, any of the Depositary's agents or the Registrar may require any or all of the following: (i) payment to it of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn or with respect to the Common Stock (as defined in Section 2.9) of the Issuer being delivered upon conversion); (ii) the production of proof satisfactory to it as to the identity and genuineness of any signature and (iii) compliance with any regulations the Depositary may establish consistent with the provisions of this Deposit Agreement, including, without limitation, this Section 2.6.

The transfer of Receipts in particular instances may be refused or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the transfer books of the Depositary are closed,

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or if any such action is deemed necessary or advisable by the Depositary or the Issuer at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of this Deposit Agreement, or, with the approval of the Issuer, for any other reason. Notwithstanding any other provision of this Deposit Agreement or the Receipts, the surrender of outstanding Receipts and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Issuer or the payment of dividends, (ii) the payment of taxes, stock transfer or registration fees and similar charges, and (iii) compliance with any U.S. laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities.

SECTION 2.7 Lost Receipts, etc.

In case any Receipt shall be mutilated, destroyed, lost or stolen, the Depositary shall execute and deliver a new Receipt of like tenor in exchange and substitution for such mutilated Receipt upon cancelation thereof, or in lieu of and in substitution for such destroyed, lost or stolen Receipt. Before the Depositary shall execute and deliver a new Receipt in substitution for a

destroyed, lost or stolen Receipt, the Owner thereof shall have (i) filed with the Depository (a) a request for such execution and delivery before the Depository has notice that the Receipt has been acquired by a bona fide purchaser and (b) a sufficient indemnity bond and (ii) satisfied any other reasonable requirements imposed by the Depository.

SECTION 2.8 Cancellation and Destruction of Surrendered Receipts.

All Receipts surrendered to the Depository shall be canceled by the Depository. The Depository is authorized to destroy Receipts so canceled.

SECTION 2.9 Mandatory Conversion of Shares into Common Stock.

On the date fixed for mandatory conversion of the Shares by the Certificate of Designation (the "Mandatory Conversion Date"), Shares represented by Depository Shares shall be mandatorily converted, and such Depository Shares shall be deemed no longer outstanding and all rights of the Owners of the Receipts evidencing such Depository Shares (except the right to receive (i) the shares of common stock, par value \$0.162/3 per share (the "Common Stock") of the Issuer to which such Owner is entitled upon conversion, (ii) any cash payable with respect to any fractional shares of Common Stock otherwise deliverable by the Depository upon conversion, (iii) any cash for accrued and unpaid dividends

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on such Shares (other than previously declared dividends payable to an Owner as of a prior date) and (iv) any other securities, property or cash to which such Owner is entitled hereunder) shall cease and terminate. Upon surrender of the Receipts evidencing such Depository Shares at the Corporate Trust Office or at such office or to such agent of the Depository as the Depository may designate for such purpose (properly endorsed or assigned for transfer, as the Depository or such agent shall so require), such Depository Shares shall be converted into, subject to adjustment as provided in the Certificate of Designation and this Deposit Agreement, (i) a number of shares of Common Stock per Depository Share equal to one-one hundredth of the number (including fractional shares) of shares of Common Stock which each Share converted into at the applicable rate specified in the Certificate of Designation, (ii) cash in lieu of fractional shares of Common Stock otherwise deliverable by the Depository upon such conversion, calculated in accordance with Section 4.11 hereof, (iii) the right to receive cash for any accrued and unpaid dividends on the Shares represented by such Depository Shares (other than previously declared dividends payable to an Owner as of a prior date) and (iv) the right to receive any other securities, property or cash to which Owners are entitled hereunder.

On the Mandatory Conversion Date, for each Owner of a Receipt or Receipts, the Issuer shall deposit with the Depository (i) certificates for the number of shares of Common Stock and (ii) the amount of cash in lieu of fractional shares determined as set forth in the preceding paragraph into which the Depository Shares evidenced by such Receipt or Receipts shall convert on the Mandatory Conversion Date (assuming proper surrender of such Receipt or Receipts to the Depository or any of its agents) and (iii) subject to the Certificate of Designation, an amount in cash equal to all accrued and unpaid dividends on the Shares represented by such Depository Shares to the Mandatory Conversion Date (other than previously declared dividends payable to an Owner as of a prior date). With respect to Owners which hold a Receipt or Receipts evidencing more than one Depository Share on the Mandatory Conversion Day, the number of shares of Common Stock and the amount of cash in lieu of fractional shares to be deposited by the Issuer with the Depository on that date shall be computed on the basis of the aggregate number of Depository Shares evidenced by such Receipt or Receipts. The Depository shall as promptly as practicable deliver to each Owner of a Receipt or Receipts which properly delivers such Receipt or Receipts to the Depository or any of its agents certificates for the number of shares of Common Stock and

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the amount of cash, without interest, to which such Owner is entitled pursuant to the preceding provisions.

No fractional shares of Common Stock will be delivered by the Depository in connection with mandatory conversion of Shares represented by Depository Shares on the Mandatory Conversion Date.

SECTION 2.10 Optional Conversion of Shares into Common Stock.

Subject to the terms and conditions of this Deposit Agreement, at any time after July 26, 1998 and prior to the Mandatory Conversion Date, an Owner of a Receipt or Receipts evidencing Depository Shares representing whole or fractional Shares may surrender such Receipt or Receipts at the Corporate Trust Office or at such office or to such agents of the Depository as the Depository may designate for such purpose, together with a notice of conversion duly completed and executed, thereby directing the Depository or any such agent to instruct the Issuer to cause the conversion (which may include partial conversions) of the number of Shares (which instruction may be given by reference to the number of Depository Shares representing such Shares) specified in such notice of conversion into shares of Common Stock at the rate specified in the Certificate of Designation, and an assignment of such Receipt or Receipts to the Issuer or in blank, duly completed and executed (and, if such conversion is to occur after the close of business on a record date for any payment of declared dividends on the Shares and before the opening of business on the next succeeding dividend payment date, payment in cash of an amount equal to the dividend payable on such date on the Shares so converted). To the extent that an Owner delivers to the Depository for conversion a Receipt or Receipts evidencing Depository Shares representing Shares which in the aggregate (including fractional Shares) would result in a fractional share of Common Stock being deliverable by the Issuer upon such Shares' conversion at the rate specified in the Certificate of Designation, the Issuer shall deliver to such Owner payment in cash in lieu of such fractional share of Common Stock, calculated in accordance with Section 4.11 hereof. If a Receipt or Receipts evidencing more than one Depository Share shall be surrendered for conversion of the Shares represented thereby at one time by the same Owner, the number of shares of Common Stock and the amount of cash in lieu of fractional shares deliverable by the Issuer upon such conversion shall be computed on the basis of the aggregate number of Shares (including fractional Shares) represented by Depository Shares evidenced by the Receipt or Receipts so surrendered.

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Upon receipt at any time after July 26, 1998 and prior to the Mandatory Conversion Date by the Depository or an agent of the Depository of a Receipt or Receipts, together with a notice of conversion, duly completed and executed, directing the Depository or such agent to instruct the Issuer to cause the conversion (which may be a partial conversion) of a specified number of Shares (which instruction may be by reference to the number of Depository Shares representing such Shares) at the rate specified in the Certificate of Designation, and an assignment of such Receipt or Receipts to the Issuer or in blank, duly completed and executed, the Depository or such agent shall instruct the Issuer, subject to adjustment as provided in the Certificate of Designation and this Deposit Agreement, (i) to cause the conversion (which may be a partial conversion) at the rate specified in the Certificate of Designation of the number of Shares represented by the Depository Shares evidenced by the Receipt or Receipts so surrendered for conversion as specified in the written notice to the Depository or such agent and (ii) to cause the delivery to the Owner of such Receipt or Receipts of (a) a certificate or certificates evidencing the number of whole shares of Common Stock into which the Shares (including fractional Shares) represented by the Depository Shares evidenced by such Receipt or Receipts have been converted, and (b) the amount of cash to which such Owner is entitled in lieu of fractional shares of Common Stock otherwise deliverable by the Issuer upon such conversion, calculated in accordance with Section 4.11

hereof. The Issuer shall as promptly as practicable after receipt thereof cause the delivery of the certificate or certificates and cash referred to in (a) and (b) above, and such conversion shall be deemed to have been effected immediately prior to the close of business on the date of such receipt and shall occur at the rate specified in the Certificate of Designation in effect at such time and on such date. Upon such conversion, the Depositary or such agent (i) shall deliver to the Owner a Receipt evidencing the number of Depositary Shares evidenced by the surrendered Receipt or Receipts in excess of the number of Depositary Shares evidenced by such Receipt or Receipts that have been so converted, (ii) shall cancel the Depositary Shares evidenced by Receipts surrendered for conversion and (iii) shall deliver to the Issuer or its transfer agent for the Shares for cancellation the number of Shares (including fractional Shares) represented by the Depositary Shares evidenced by the Receipts so surrendered and so converted. Upon the delivery of the Shares to be canceled due to such conversion by the Depositary or such agent to the Issuer or its transfer agent, the Issuer or its transfer agent shall deliver to the Depositary or such agent, as applicable, a

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certificate or certificates evidencing the number of Shares, if any, that equals the excess of the number of Shares evidenced by the surrendered certificate over the number of Shares evidenced by that certificate that have been so converted. Depositary Shares converted in connection with conversion of the Shares represented thereby shall only be converted in whole, and not in part.

The Owner of a Receipt or Receipts on any dividend payment record date established by the Depositary as provided in Section 4.5 hereof shall be entitled to receive the dividend payable with respect to the Depositary Shares evidenced by such Receipt or Receipts on the dividend payment date notwithstanding the conversion (which may be a partial conversion) subsequent to such record date of the Shares represented by such Depositary Shares. However, if a Receipt or Receipts are surrendered for conversion after the close of business on a dividend payment record date established by the Depositary and before the opening of business on the next succeeding dividend payment date, the Owner of such Receipt or Receipts shall pay to the Depositary an amount equal to the dividend payable on such dividend payment date on the Depositary Shares evidenced by the Receipt or Receipts being surrendered for conversion. Any Owner of a Receipt or Receipts on a dividend payment record date established by the Depositary who (or whose transferee) surrenders such Receipt or Receipts with instructions to the Depositary for conversion of the underlying Shares on the next succeeding dividend payment date shall receive the dividend payable with respect to the Depositary Shares evidenced by such Receipt or such Receipts and shall not be required to include payment of the amount of such dividend on such Depositary Shares upon surrender of such Receipt or Receipts for conversion.

Upon the conversion of any Share for which a notice of conversion has been provided to the Depositary or an agent of the Depositary by the Owner of the Receipt or Receipts evidencing the Depositary Shares representing such Share, dividends shall cease to become payable on such Depositary Shares, such Depositary Shares shall be deemed no longer outstanding, all rights of the Owner of the Receipt or Receipts evidencing such Depositary Shares (except the right to receive (i) the Common Stock to which such Owner is entitled upon conversion, (ii) any cash payable with respect to any fractional shares of Common Stock otherwise deliverable by the Issuer upon conversion, (iii) any Receipts evidencing Depositary Shares representing Shares which were not so converted and (iv) any other securities, property or cash to which such Owner is entitled hereunder)

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shall cease and terminate, and the Receipt or Receipts evidencing such Depositary Shares shall be cancelled.

No fractional shares of Common Stock shall be deliverable by the Issuer upon conversion of the Shares represented by the Depositary Shares.

ARTICLE III

CERTAIN OBLIGATIONS OF OWNERS OF RECEIPTS

SECTION 3.1 Filing Proofs, Certificates and Other Information.

Any Owner of a Receipt may be required from time to time to file with the Depositary such proof of citizenship or residence, to execute such certificates and to make such representations and warranties, as the Depositary may deem necessary or proper. The Depositary may withhold the registration of transfer of any Receipt or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities or the exercise of any conversion right referred to in Section 2.9 and 2.10 or the delivery of any Common Stock upon such conversion until such proof or other information is filed or such certificates are executed or such representations and warranties made.

SECTION 3.2 Liability of Owner for Taxes.

If any tax or other governmental charge shall become payable with respect to any Receipt or any Deposited Securities represented by Depositary Shares evidenced by any Receipt or with respect to any conversion right referred to in Section 2.10, such tax or other governmental charge shall be payable by the Owner of such Receipt to the Depositary. The Depositary may refuse to effect any transfer of such Receipt or any withdrawal of Deposited Securities represented by Depositary Shares evidenced by such Receipt or any such conversion until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner thereof any part or all of the Deposited Securities represented by the Depositary Shares evidenced by such Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner of such Receipt shall remain liable for any deficiency.

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SECTION 3.3 Warranties on Deposit of Shares.

The Issuer, upon depositing Shares under this Deposit Agreement, shall be deemed thereby to represent and warrant that such Shares and each certificate therefor are validly issued, fully paid, nonassessable and free of any pre-emptive rights of the holders of outstanding capital stock of the Issuer and that the person making such deposit is duly authorized so to do. The Issuer shall also be deemed to represent that the deposit of such Shares and the sale of Receipts evidencing Depositary Shares representing Shares by the Issuer are not restricted under the Securities Act of 1933. Such representations and warranties shall survive the deposit of Shares and issuance of Receipts.

ARTICLE IV

THE DEPOSITED SECURITIES

SECTION 4.1 Cash Distributions.

Whenever the Depositary shall receive any cash dividend or other cash distribution on any Deposited Securities (other than cash dividends or cash distributions paid by the Issuer to the Depositary in lieu of fractional shares of Common Stock otherwise deliverable by the Issuer upon conversion of the Depositary Shares), the Depositary shall distribute the dividend or distribution thus received to the Owners entitled thereto, in proportion, insofar as

practicable, to the number of Depositary Shares representing such Deposited Securities held by them respectively. In the event that the Issuer or the Depositary shall be required to withhold and does withhold from any such cash dividend or such other cash distribution an amount on account of taxes, the amount distributed to the Owner of the Receipts evidencing Depositary Shares representing such Deposited Securities shall be reduced accordingly. The Depositary shall distribute only such amount, however, as can be distributed without attributing to any Owner a fraction of one cent. Any such fractional amounts shall be rounded to the nearest whole cent and so distributed to Owners entitled thereto. The Depositary will forward to the Issuer or its agent such information from its records as the Issuer may reasonably request to enable the Issuer or its agent to file necessary reports with governmental agencies.

SECTION 4.2 Distributions Other Than Cash, Shares or Rights.

Subject to the provisions of Section 4.7, whenever the Depositary shall receive any distribution other than a distribution described in Sections 4.1, 4.3 or 4.4, the Depositary shall cause the securities or property received

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by it to be distributed to the Owners entitled thereto, in proportion to the number of Depositary Shares representing Deposited Securities held by them respectively, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners entitled thereto, or if for any other reason (including, but not limited to, any requirement that the Issuer or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act of 1933 in order to be distributed to Owners or holders) the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale shall be distributed by the Depositary to the Owners entitled thereto as in the case of a distribution received in cash pursuant to Section 4.1.

SECTION 4.3 Distributions in Shares.

If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Issuer shall so request, distribute to the Owners of outstanding Receipts entitled thereto, in proportion to the number of Depositary Shares representing such Deposited Securities held by them respectively, additional Receipts evidencing an aggregate number of Depositary Shares representing the amount of Shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of Depositary Shares evidenced by Receipts, including the withholding of any tax or other governmental charge as provided in Section 4.10. In lieu of delivering Receipts for fractional Depositary Shares in any such case, the Depositary shall sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds, all in the manner and subject to the conditions described in Section 4.1, or, if the Depositary deems such sale and distribution not feasible, the Depositary may adopt such method as it shall deem equitable and practicable in substitution for delivering Receipts for fractional Depositary Shares.

SECTION 4.4 Rights.

In the event that the Issuer shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of

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any other nature, the Depositary shall have discretion as to the procedure to be followed in making such rights available to any Owners or in disposing of such rights on behalf of any Owners and making the net proceeds available to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its discretion that it is lawful and feasible to make such rights available to all Owners or to certain Owners but not to other Owners, the Depositary may distribute to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it deems appropriate.

In circumstances in which rights would otherwise not be distributed, if an Owner of Receipts requests the distribution of warrants or other instruments in order to exercise the rights allocable to the Depositary Shares of such Owner hereunder, the Depositary will make such rights available to such Owner upon written notice from the Issuer to the Depositary that (i) the Issuer has elected in its sole discretion to permit such rights to be exercised and (ii) such Owner has executed such documents as the Issuer has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Shares, and the Issuer shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary shall cause the Shares so purchased to be deposited pursuant to Section 2.2 of this Deposit Agreement, and shall, pursuant to Section 2.3 of this Deposit Agreement, execute and deliver Receipts to such Owner. In the case of a distribution pursuant to the second paragraph of this section, such Receipts shall be legended in accordance with applicable U.S. laws, and shall be

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subject to the appropriate restrictions on sale, deposit, cancelation, and transfer under such laws.

If the Depositary determines in its discretion that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales (net of all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of this Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any Receipt or otherwise.

The Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act of 1933 with respect to a distribution to Owners or are registered under the provisions of such Act. If an Owner of Receipts requests distribution of warrants or other instruments, notwithstanding that there has been no such registration under such Act, the Depositary shall not effect such distribution unless it has received an opinion from recognized

counsel in the United States for the Issuer upon which the Depositary may rely that such distribution to such Owner is exempt from such registration.

The Depositary shall not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

SECTION 4.5 Fixing of Record Date.

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights, preferences or privileges shall be offered or issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each Depositary Share, or whenever the Depositary shall receive notice of any meeting at which holders of Shares are entitled to vote or of which holders of Shares are entitled to notice, the Depositary shall fix a record date (which shall be the same date as the record date fixed by the Issuer in respect of the Shares) (i) for the determination of the Owners who shall be (a) entitled to

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receive such dividend, distribution, rights, preferences or privileges or the net proceeds of the sale thereof or (b) entitled to give instructions for the exercise of voting rights at any such meeting, or (ii) on or after which each Depositary Share will represent the changed number of Shares.

SECTION 4.6 Voting of Deposited Securities.

Upon receipt of notice of any meeting at which the holders of Shares are entitled to vote, the Depositary shall, as soon as practicable thereafter, mail to the Owners a notice, which shall be provided by the Issuer and which shall contain (i) such information as is contained in such notice of meeting, and (ii) a statement that the Owners as of the close of business on a specified record date fixed pursuant to Section 4.5 shall be entitled, subject to any applicable provision of law, the Restated Certificate of Incorporation or the by-laws of the Issuer, to instruct the Depositary as to the exercise of the voting rights pertaining to the amount of Shares or other Deposited Securities represented by their respective Depositary Shares and (iii) a statement as to the manner in which such instructions may be given. Upon the written request of an Owner on such record date, the Depositary shall endeavor, in so far as practicable, to vote or cause to be voted the amount of Shares or other Deposited Securities represented by the Depositary Shares evidenced by such Receipt in accordance with the instructions set forth in such request. The Issuer hereby agrees to take all reasonable action that may be deemed necessary by the Depositary in order to enable the Depositary to vote such Shares or cause such Shares to be voted. In the absence of specific instructions from the Owner of a Receipt, the Depositary will abstain from voting to the extent of the Shares represented by the Depositary Shares evidenced by such Receipt.

SECTION 4.7 Changes Affecting Deposited Securities.

In circumstances where the provisions of Section 4.2 do not apply, upon any change in nominal value, change in par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting the Issuer or to which it is a party, any securities which shall be received by the Depositary in exchange for or in conversion of or in respect of Deposited Securities, shall be treated as new Deposited Securities under this Deposit Agreement, and Depositary Shares evidenced by Receipts then outstanding shall thenceforth represent the proportionate interest of Owners thereof in the new Deposited Securities so received in exchange or conversion, unless additional Receipts are

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delivered pursuant to the following sentence. In any such case the Depositary may, and shall if the Issuer shall so request, execute and deliver additional Receipts as in the case of a dividend in Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

SECTION 4.8 Reports.

The Depositary shall make available for inspection by Owners at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Issuer which are both (i) received by the Depositary as the holder of the Deposited Securities and (ii) made generally available to the holders of such Deposited Securities by the Issuer. The Issuer agrees that it shall deliver to the Depositary, and the Depositary shall, promptly after receipt thereof, transmit to the Owners of the Receipts, in each case at the address recorded in the Depositary's books, copies of all notices and reports (including financial statements) required by law, by the rules of any national securities exchange upon which the Depositary Shares are listed or by the Restated Certificate of Incorporation or the Certificate of Designation to be furnished by the Issuer to holders of Shares. Such transmission shall be at the Issuer's expense and the Issuer shall provide the Depositary with such number of copies of such documents as the Depositary may reasonably request. In addition, the Depositary will transmit to the Owners of Receipts at the Issuer's expense such other documents as may be requested by the Issuer.

SECTION 4.9 Lists of Owners.

Promptly upon request by the Issuer, the Depositary shall, at the expense of the Issuer, furnish to it a list, as of a recent date, of the names, addresses and holdings of Depositary Shares by all persons in whose names Receipts are registered on the books of the Depositary.

SECTION 4.10 Withholding.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners entitled thereto.

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SECTION 4.11 Fractional Shares.

No fractional shares of Common Stock will be delivered by the Issuer or the Depositary, as applicable, to the Owners of Receipts upon mandatory or optional conversion into shares of Common Stock.

In lieu of any fractional share otherwise deliverable in respect of the aggregate number of Depositary Shares evidenced by a Receipt or Receipts of any Owner that are converted upon mandatory conversion, such Owner shall be entitled to receive an amount in cash equal to the same fraction of the Closing Price (as defined in Section 1.1 hereof) of the Common Stock as of the fifth Trading Day (as defined in Section 1.1 hereof) immediately preceding the Mandatory Conversion Date.

In lieu of any fractional share otherwise deliverable in respect of the aggregate number of Shares represented by Depositary Shares evidenced by a Receipt or Receipts of any Owner that are converted upon any optional

conversion, such Owner shall be entitled to receive an amount in cash equal to the same fraction of the Closing Price of the Common Stock as of the second Trading Day immediately preceding the effective date of conversion.

If a Receipt or Receipts evidencing more than one Depositary Share are surrendered for conversion at one time by or for the same Owner, the number of shares of Common Stock and the amount of cash in lieu of fractional shares deliverable upon conversion shall be computed on the basis of the aggregate number of Depositary Shares evidenced by the Receipt or Receipts so surrendered.

In the event that (i) mandatory conversion of the Depositary Shares or (ii) voluntary conversions of the Shares represented by the Depositary Shares result in any Owner of Receipts evidencing Depositary Shares being entitled to cash in lieu of a fractional share on the related date of conversion, the Issuer will deliver (either directly or through the Depositary, as applicable) to all such Owners cash in an amount equal to the total amount of cash to which all such Owners of Receipts are entitled in lieu of fractional shares on such date.

If payment in cash in lieu of fractional shares of Common Stock in accordance with the preceding five paragraphs would result in the Issuer's failure to be in compliance with any debt instrument to which it is a party, the Issuer shall be entitled to deliver (either directly or through the Depositary, as applicable) a whole share of Common Stock in lieu of cash to Owners entitled to

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fractional shares of Common Stock (beginning with the Owners entitled to the largest fractional shares) until delivery of cash in lieu of fractional shares of Common Stock to the remaining Owners would no longer result in the Issuer's failure to be in compliance with such debt instrument.

ARTICLE V

THE DEPOSITARY AND THE ISSUER

SECTION 5.1 Maintenance of Office and Transfer Books by the Depositary.

Until termination of this Deposit Agreement in accordance with its terms, the Depositary shall maintain in the Borough of Manhattan, The City of New York, facilities for the execution and delivery, registration, registration of transfers and surrender of Receipts in accordance with the provisions of this Deposit Agreement.

The Depositary shall keep books for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners, provided that such inspection shall not be for the purpose of communicating with Owners in the interest of a business or object other than the business of the Issuer or a matter related to this Deposit Agreement or the Receipts.

The Depositary may close the transfer books, at any time or from time to time, when deemed expedient by it in connection with the performance of its duties hereunder.

If any Receipts or the Depositary Shares evidenced thereby are listed on one or more stock exchanges in the United States, the Depositary shall act as Registrar or appoint a Registrar or one or more co-registrars for registry of such Receipts in accordance with any requirements of such exchange or exchanges.

SECTION 5.2 Prevention or Delay in Performance by the Depositary or the Issuer.

Neither the Depositary nor the Issuer shall incur any liability to

any Owner or holder of any Receipt, if by reason of any provision of any present or future law or regulation of the United States or of any governmental or regulatory authority or stock exchange, or by reason of any provision, present or future, of the Restated Certificate of Incorporation or by-laws of the Issuer, or by reason of any act of God or war or other circumstances beyond its control, the Depositary or the Issuer shall be prevented or forbidden from, or be subject to any civil or criminal penalty on

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account of, doing or performing any act or thing which by the terms of this Deposit Agreement it is provided shall be done or performed; nor shall the Depositary or the Issuer incur any liability to any Owner or holder of any Receipt by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of this Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in this Deposit Agreement. Where, by the terms of a distribution pursuant to Sections 4.1, 4.2, or 4.3 of the Deposit Agreement, or an offering or distribution pursuant to Section 4.4 of the Deposit Agreement, or for any other reason, such distribution or offering may not be made available to Owners, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse.

SECTION 5.3 Obligations of the Depositary and the Issuer.

The Issuer assumes no obligation nor shall it be subject to any liability under this Deposit Agreement to Owners or holders of Receipts, except that it agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

The Depositary assumes no obligation nor shall it be subject to any liability under this Deposit Agreement to any Owner or holder of any Receipt (including, without limitation, liability with respect to the validity or worth of the Deposited Securities), except that it agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

Neither the Depositary nor the Issuer shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in respect of the Receipts, which in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expense and liability shall be furnished as often as may be required.

Neither the Depositary nor the Issuer shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or any other person believed by it in good faith to be competent to give such advice or information.

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The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary.

The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith.

No disclaimer of liability under the Securities Act of 1933 is intended by any provision of this Deposit Agreement.

SECTION 5.4 Resignation and Removal of the Depositary.

The Depositary may at any time resign as Depositary hereunder by written notice of its election so to do delivered to the Issuer, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

The Depositary may at any time be removed by the Issuer by written notice of such removal effective upon the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

In case at any time the Depositary acting hereunder shall resign or be removed, the Issuer shall use its best efforts to appoint a successor depositary, which shall be a bank or trust company having an office in the Borough of Manhattan, The City of New York and having a combined capital and surplus of at least \$50,000,000. Every successor depositary shall execute and deliver to its predecessor and to the Issuer an instrument in writing accepting its appointment hereunder, and thereupon such successor depositary, without any further act or deed, shall become fully vested with all the rights, powers, duties and obligations of its predecessor; but such predecessor, nevertheless, upon payment of all sums due it and on the written request of the Issuer shall execute and deliver an instrument transferring to such successor all rights and powers of such predecessor hereunder, shall duly assign, transfer and deliver all right, title and interest in the Deposited Securities to such successor, and shall deliver to such successor a list of the Owners of all outstanding

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Receipts. Any such successor depositary shall promptly mail notice of its appointment to the Owners.

Any corporation into or with which the Depositary may be merged or consolidated shall be the successor of the Depositary without the execution or filing of any document or any further act.

SECTION 5.5 Distribution of Additional Shares, Rights, etc.

The Issuer agrees that in the event of any issuance or distribution of (1) additional Shares, (2) rights to subscribe for Shares, (3) securities convertible into Shares, or (4) rights to subscribe for such securities, (each a "Distribution"), the Issuer will promptly furnish to the Depositary a written opinion from U.S. counsel for the Issuer, which counsel shall be reasonably satisfactory to the Depositary, stating whether or not the Distribution requires a Registration Statement under the Securities Act of 1933 to be in effect prior to making such Distribution available to Owners entitled thereto. If in the opinion of such counsel a Registration Statement is required, such counsel shall furnish to the Depositary a written opinion as to whether or not there is a Registration Statement in effect which will cover such Distribution.

SECTION 5.6 Indemnification.

The Issuer agrees to indemnify the Depositary, its directors, employees, agents and affiliates, and hold each of them harmless from, any liability or expense (including, but not limited to, the reasonable fees and expenses of counsel) which may arise out of acts performed or omitted, in accordance with the provisions of this Deposit Agreement and of the Receipts, as the same may be amended, modified or supplemented from time to time, (i) by the Depositary or its directors, employees, agents and affiliates, except for any

liability or expense arising out of the negligence or bad faith of either of them, or (ii) by the Issuer or any of its directors, employees, agents and affiliates.

SECTION 5.7 Charges of Depositary.

No fees, charges and expenses of the Depositary or any agent of the Depositary hereunder or of any Registrar shall be payable by any person other than the Issuer, except for any taxes (including transfer taxes, if any) and other governmental charges and except as provided in this Deposit Agreement. All other fees, charges and expenses of the Depositary and any agent of the Depositary hereunder and of any Registrar incident to the performance of their respective obligations hereunder shall be paid upon

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consultation and agreement between the Depositary and the Issuer as to the amount and nature of such fees, charges and expenses. The Depositary shall present its statement for fees, charges and expenses to the Issuer once every month or at such other intervals as the Issuer and the Depositary may agree.

The Depositary may own and deal in any class of securities of the Issuer and its affiliates and in Receipts.

SECTION 5.8 Retention of Depositary Documents.

The Depositary is authorized to destroy those documents, records, bills and other data compiled during the term of this Deposit Agreement at the times permitted by the laws or regulations governing the Depositary unless the Issuer requests that such papers be retained for a longer period or turned over to the Issuer or to a successor depositary.

SECTION 5.9 Exclusivity.

Subject to the Issuer's right to remove the Depositary pursuant to Section 5.4, the Issuer agrees not to appoint any other depositary for issuance of Depositary Receipts so long as The Bank of New York is acting as Depositary hereunder.

ARTICLE VI

AMENDMENT AND TERMINATION

SECTION 6.1 Amendment.

The form of the Receipts and any provision of this Deposit Agreement may at any time and from time to time be amended by agreement between the Issuer and the Depositary in any respect that they may deem necessary or desirable. Any amendment that shall impose any fees, taxes or charges (other than taxes and other governmental charges, fees and expenses provided for herein or in the Receipts), or that shall otherwise prejudice any substantial existing right of Owners of Receipts, shall not become effective as to outstanding Receipts until the expiration of 90 days after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner of an outstanding Receipt at the time any such amendment becomes effective shall be deemed, by continuing to hold such Receipt, to consent and agree to such amendment and to be bound by this Deposit Agreement as amended thereby. In no event shall any amendment impair the right, subject to the provisions of this Deposit Agreement, of any Owner to surrender any Receipt or Receipts evidencing Depositary Shares representing Shares with instructions to the Depositary or

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an applicable agent of the Depositary to deliver to the Owner such Shares or to cause the conversion of such Shares into Common Stock and cash for fractional shares of Common Stock and, in each case, all securities and other property, if any, represented thereby, except in order to comply with mandatory provisions of applicable law.

SECTION 6.2 Termination.

This Deposit Agreement shall terminate at the close of business on the Mandatory Conversion Date upon distribution by the Depositary to each Owner entitled thereto of (i) shares of Common Stock and cash (whether in lieu of fractional shares or otherwise) received by the Depositary from the Issuer for mandatory conversion of, and/or dividend payments on, the Depositary Shares evidenced by the Receipt or Receipts held by such Owner and (ii) all other securities, property and cash then held by the Depositary hereunder. On and after the date of termination, the Owner of a Receipt will, upon surrender of such Receipt at the Corporate Trust Office of the Depositary and payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the Depositary Shares evidenced by such Receipt. If any Receipts shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under this Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights as provided in this Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depositary (after deducting, in each case, any applicable taxes or governmental charges). At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held hereunder and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it hereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under this Deposit Agreement, except to account for such net proceeds and other cash (after deducting, in each case, any applicable taxes or

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governmental charges). Upon the termination of this Deposit Agreement, the Issuer shall be discharged from all obligations under this Deposit Agreement except for its obligations to the Depositary under Sections 5.6 and 5.7 hereof.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1 Counterparts.

This Deposit Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of such counterparts shall constitute one and the same instrument. Copies of this Deposit Agreement shall be filed with the Depositary and shall be open to inspection by any holder or Owner of a Receipt during business hours.

SECTION 7.2 No Third Party Beneficiaries.

This Deposit Agreement is for the exclusive benefit of the parties hereto and shall not be deemed to give any legal or equitable right, remedy or

claim whatsoever to any other person.

SECTION 7.3 Severability.

In case any one or more of the provisions contained in this Deposit Agreement or in the Receipts should be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall in no way be affected, prejudiced or disturbed thereby.

SECTION 7.4 Holders and Owners as Parties; Binding Effect.

The holders and Owners of Receipts from time to time shall be parties to this Deposit Agreement and shall be bound by all of the terms and conditions hereof and of the Receipts by acceptance thereof.

SECTION 7.5 Notices.

Any and all notices to be given to the Issuer shall be deemed to have been duly given if in English and personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to Mr. Bruce A. Smith, Tesoro Petroleum Corporation, 8700 Tesoro Drive, San Antonio, Texas 78217 (facsimile: (210) 828-8600) or any other place to which the Issuer may have transferred its principal office.

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Any and all notices to be given to the Depositary shall be deemed to have been duly given if in English and personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to The Bank of New York, 101 Barclay Street, New York, New York 10286, Attention: American Depositary Receipt Administration, or any other place to which the Depositary may have transferred its Corporate Trust Office.

Any and all notices to be given to any Owner shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to such Owner at the address of such Owner as it appears on the transfer books for Receipts of the Depositary, or, if such Owner shall have filed with the Depositary a written request that notices intended for such Owner be mailed to some other address, at the address designated in such request.

Delivery of a notice sent by mail or cable, telex or facsimile transmission shall be deemed to be effected at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a cable, telex or facsimile transmission) is deposited, postage prepaid, in a post-office letter box. The Depositary or the Issuer may, however, act upon any cable, telex or facsimile transmission received by it, notwithstanding that such cable, telex or facsimile transmission shall not subsequently be confirmed by letter as aforesaid.

SECTION 7.6 Governing Law.

This Deposit Agreement and the Receipts shall be interpreted and all rights hereunder and thereunder and provisions hereof and thereof shall be governed by the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the laws of another jurisdiction would be required thereby.

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IN WITNESS WHEREOF, TESORO PETROLEUM CORPORATION and THE BANK OF NEW YORK have duly executed this agreement as of the day and year first set forth above and all Owners shall become parties hereto upon acceptance by them of Receipts issued in accordance with the terms hereof.

TESORO PETROLEUM CORPORATION, as
Issuer

By: /s/ GREGORY A. WRIGHT

Name:
Title:

THE BANK OF NEW YORK, as Depositary

By: /s/ STEVE MYERS

Name:
Title:

Exhibit A to Deposit Agreement

NO.

DEPOSITARY SHARES
(EACH DEPOSITARY SHARE
REPRESENTS 1/100 OF A
DEPOSITED SHARE)

DEPOSITARY RECEIPT FOR _____
SHARES OF THE 7.25% MANDATORILY
CONVERTIBLE PREFERRED STOCK,
NO PAR VALUE PER SHARE, OF
TESORO PETROLEUM CORPORATION
(INCORPORATED UNDER THE LAWS
OF THE STATE OF DELAWARE)

The undersigned, as depositary (hereinafter called the "Depositary"),
hereby certifies that _____, or registered assigns IS THE OWNER OF

DEPOSITARY SHARES

representing interests in deposited shares of 7.25% Mandatorily Convertible Preferred Stock, no par value per share (herein called "Shares"), of Tesoro Petroleum Corporation, incorporated under the laws of the State of Delaware (herein called the "Issuer"). At the date hereof, each Depositary Share represents 1/100 of a Share which is deposited under the deposit agreement at the Corporate Trust Office of the Depositary. The Depositary's Corporate Trust Office is located at a different address than its principal executive office. Its Corporate Trust Office is located at 101 Barclay Street, New York, N.Y. 10286, and its principal executive office is located at 48 Wall Street, New York, N.Y. 10286.

THE DEPOSITARY'S CORPORATE TRUST OFFICE ADDRESS IS
101 BARCLAY STREET, NEW YORK, N.Y. 10286

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1. THE DEPOSIT AGREEMENT.

This Depositary Receipt is one of an issue (herein called "Receipts"), all issued and to be issued upon the terms and conditions set forth in the deposit agreement, dated as of July 1, 1998 (herein called the "Deposit Agreement"), by and among the Issuer, the Depositary, and all Owners and holders from time to time of Receipts issued thereunder, each of whom by accepting a Receipt agrees to become a party thereto and become bound by all the terms and conditions thereof. The Deposit Agreement sets forth the rights of Owners and holders of the Receipts and the rights and duties of the Depositary in respect of the Shares deposited thereunder and any and all other securities, property and cash from time to time received in respect of such Shares and held thereunder (such Shares, securities, property, and cash are herein called "Deposited Securities"). Copies of the Deposit Agreement are on file at the Depositary's Corporate Trust Office in New York City.

The statements made on the face and reverse of this Receipt are summaries of certain provisions of the Deposit Agreement and are qualified by and subject to the detailed provisions of the Deposit Agreement, to which reference is hereby made. Capitalized terms not defined herein shall have the meanings set forth in the Deposit Agreement.

2. SURRENDER OF RECEIPTS AND WITHDRAWAL OF SHARES.

Upon surrender at the Corporate Trust Office of the Depositary of this Receipt, and subject to the terms and conditions of the Deposit Agreement, the Owner hereof is entitled to delivery, to him or upon his order, of the amount of Deposited Securities (it being understood that, with respect to any withdrawal of Shares, only whole Shares may be withdrawn) at the time represented by the Depositary Shares for which this Receipt is issued. Delivery of such Deposited Securities may be made by the delivery of (i) certificates for Shares being withdrawn in the name of the Owner hereof or as ordered by him or by certificates for the Shares being withdrawn properly endorsed or accompanied by proper instruments of transfer to such Owner or as ordered by him and (ii) any other securities, property and cash to which such Owner is then entitled in respect of this Receipt to such Owner or as ordered by him. Such delivery will be made at the Corporate Trust Office of the Depositary.

3. MANDATORY CONVERSION OF SHARES INTO COMMON STOCK.

On the date fixed for mandatory conversion of the Shares by the Certificate of Designation (the "Mandatory Conversion Date"), Shares represented by Depositary Shares shall be mandatorily converted, and such Depositary Shares

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shall be deemed no longer outstanding and all rights of the Owners of the Receipts evidencing such Depositary Shares (except the right to receive (i) the Common Stock to which such Owner is entitled upon conversion, (ii) any cash payable with respect to any fractional shares of Common Stock otherwise deliverable by the Depositary upon conversion, (iii) any cash for accrued and unpaid dividends on such Shares (other than previously declared dividends payable to an Owner as of a prior date) and (iv) any other securities, property or cash to which such Owner is entitled under the Deposit Agreement) shall cease and terminate. Upon surrender of the Receipts evidencing such Depositary Shares at the Corporate Trust Office or at such office or to such agent of the Depositary as the Depositary may designate for such purpose (properly endorsed or assigned for transfer, as the Depositary or such agent shall so require), such Depositary Shares shall be converted into, subject to adjustment as provided in the Certificate of Designation and the Deposit Agreement, (i) a number of shares of Common Stock per Depositary Share equal to one-one hundredth of the number (including fractional shares) of shares of Common Stock which each Share converted into at the applicable rate specified in the Certificate of Designation, (ii) cash in lieu of fractional shares of Common Stock otherwise deliverable by the Depositary upon such conversion, calculated in accordance with Section 4.11 of the Deposit Agreement, (iii) the right to receive cash for any accrued and unpaid dividends on the Shares represented by such Depositary Shares (other than previously declared dividends payable to an Owner as of a prior date) and (iv) the right to receive any other securities, property or cash to which Owners are entitled under the Deposit Agreement.

On the Mandatory Conversion Date, for each Owner of a Receipt or Receipts, the Issuer shall deposit with the Depositary (i) certificates for the number of shares of Common Stock and (ii) the amount of cash in lieu of fractional shares determined as set forth in the preceding paragraph into which the Depositary Shares evidenced by such Receipt or Receipts shall convert on the Mandatory Conversion Date (assuming proper surrender of such Receipt or Receipts to the Depositary or any of its agents) and (iii) subject to the Certificate of Designation, an amount in cash equal to all accrued and unpaid dividends on the Shares represented by such Depositary Shares to the Mandatory Conversion Date (other than previously declared dividends payable to an Owner as of a prior date). With respect to Owners which hold a Receipt or Receipts evidencing more than one Depositary Share on the Mandatory Conversion Day, the number of shares of Common Stock and the amount of cash in lieu of fractional shares to be deposited

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by the Issuer with the Depositary on that date shall be computed on the basis of the aggregate number of Depositary Shares evidenced by such Receipt or Receipts. The Depositary shall as promptly as practicable deliver to each Owner of a Receipt or Receipts which properly delivers such Receipt or Receipts to the Depositary or any of its agents certificates for the number of shares of Common Stock and the amount of cash, without interest, to which such Owner is entitled pursuant to the preceding provisions.

4. OPTIONAL CONVERSION OF SHARES INTO COMMON STOCK.

Subject to the terms and conditions of the Deposit Agreement, at any time after July 26, 1998 and prior to the Mandatory Conversion Date, an Owner of a Receipt or Receipts evidencing Depositary Shares representing whole or fractional Shares may surrender such Receipt or Receipts at the Corporate Trust Office or at such office or to such agents of the Depositary as the Depositary may designate for such purpose, together with a notice of conversion duly completed and executed, thereby directing the Depositary or any such agent to instruct the Issuer to cause the conversion (which may include partial conversions) of the number of Shares (which instruction may be given by reference to the number of Depositary Shares representing such Shares) specified in such notice of conversion into shares of Common Stock at the rate specified in the Certificate of Designation, and an

assignment of such Receipt or Receipts to the Issuer or in blank, duly completed and executed (and, if such conversion is to occur after the close of business on a record date for any payment of declared dividends on the Shares and before the opening of business on the next succeeding dividend payment date, payment in cash of an amount equal to the dividend payable on such date on the Shares so converted). To the extent that an Owner delivers to the Depositary for conversion a Receipt or Receipts evidencing Depositary Shares representing Shares which in the aggregate (including fractional Shares) would result in a fractional share of Common Stock being deliverable by the Issuer upon such Shares' conversion at the rate specified in the Certificate of Designation, the Issuer shall deliver to such Owner payment of cash in lieu of such fractional share of Common Stock, calculated in accordance with Section 4.11 of the Deposit Agreement. If a Receipt or Receipts evidencing more than one Depositary Share shall be surrendered for conversion of the Shares represented thereby at one time by the same Owner, the number of shares of Common Stock and the amount of cash in lieu of fractional shares deliverable by the Issuer upon such conversion shall be computed on the basis of the aggregate number of Shares (including

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fractional Shares) represented by Depositary Shares evidenced by the Receipt or Receipts so surrendered.

Upon receipt at any time after July 26, 1998 and prior to the Mandatory Conversion Date by the Depositary or an agent of the Depositary of the materials specified in the first sentence of the preceding paragraph, the Depositary or such agent shall instruct the Issuer, subject to adjustment as provided in the Certificate of Designation and the Deposit Agreement, (i) to cause the conversion (which may be a partial conversion) at the rate specified in the Certificate of Designation of the number of Shares represented by the Depositary Shares evidenced by the Receipt or Receipts surrendered for conversion as specified in the written notice to the Depositary or such agent and (ii) to cause the delivery to the Owner of such Receipt or Receipts of (a) a certificate or certificates evidencing the number of whole shares of Common Stock into which the Shares (including fractional Shares) represented by the Depositary Shares evidenced by such Receipt or Receipts have been converted, and (b) the amount of cash to which such Owner is entitled in lieu of fractional shares of Common Stock otherwise deliverable by the Issuer upon such conversion, calculated in accordance with Section 4.11 of the Deposit Agreement. The Issuer shall as promptly as practicable after receipt thereof cause the delivery of the certificate or certificates and cash referred to in (a) and (b) above, and such conversion shall be deemed to have been effected immediately prior to the close of business on the date of such receipt and shall occur at the rate specified in the Certificate of Designation in effect at such time and on such date. Upon such conversion, the Depositary or such agent shall deliver to the Owner a Receipt evidencing the number of Depositary Shares evidenced by the surrendered Receipt or Receipts in excess of the number of Depositary Shares evidenced by such Receipt or Receipts that have been so converted. Depositary Shares converted in connection with conversion of the Shares represented thereby shall only be converted in whole, and not in part.

The Owner of a Receipt or Receipts on any dividend payment record date established by the Depositary as provided in the Deposit Agreement shall be entitled to receive the dividend payable with respect to the Depositary Shares evidenced by such Receipt or Receipts on the dividend payment date notwithstanding the conversion (which may be a partial conversion) subsequent to such record date of the Shares represented by such Depositary Shares. However, if a Receipt or Receipts are surrendered for conversion after the close of business on a dividend payment record date established by the Depositary and before the opening of

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business on the next succeeding dividend payment date, the Owner of such Receipt or Receipts shall pay to the Depositary an amount equal to the dividend payable on such dividend payment date on the Depositary Shares evidenced by the Receipt or Receipts being surrendered for conversion. Any Owner of a Receipt or Receipts on a dividend payment record date established by the Depositary who (or whose transferee) surrenders such Receipt or Receipts with instructions to the Depositary for conversion of the underlying Shares on the next succeeding dividend payment date shall receive the dividend payable with respect to the Depositary Shares evidenced by such Receipt or such Receipts and shall not be required to include payment of the amount of such dividend on such Depositary Shares upon surrender of such Receipt or Receipts for conversion.

Upon the conversion of any Share for which a notice of conversion has been provided to the Depositary or an agent of the Depositary by the Owner of the Receipt or Receipts evidencing the Depositary Shares representing such Share, dividends shall cease to become payable on such Depositary Shares, such Depositary Shares shall be deemed no longer outstanding, all rights of the Owner of the Receipt or Receipts evidencing such Depositary Shares (except the right to receive (i) the Common Stock to which such Owner is entitled upon conversion, (ii) any cash payable with respect to any fractional shares of Common Stock otherwise deliverable by the Issuer upon conversion, (iii) any Receipts evidencing Depositary Shares representing Shares which were not so converted and (iv) any other securities, property or cash to which such Owner is entitled under the Deposit Agreement) shall cease and terminate, and the Receipt or Receipts evidencing such Depositary Shares shall be cancelled.

5. TRANSFERS, SPLIT-UPS, AND COMBINATIONS OF RECEIPTS.

The transfer of this Receipt is registrable on the books of the Depositary at its Corporate Trust Office by the Owner hereof in person or by a duly authorized attorney, upon surrender of this Receipt properly endorsed for transfer or accompanied by proper instruments of transfer and funds sufficient to pay any applicable transfer taxes and upon compliance with such regulations, if any, as the Depositary may establish for such purpose. With the approval of the Issuer, the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, for any reason, and such transfer and registration may also be refused or suspended in certain circumstances described in the Deposit Agreement. This Receipt may be split into other such Receipts, or may be combined with other such

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Receipts into one Receipt, evidencing the same aggregate number of Depositary Shares as the Receipt or Receipts surrendered.

6. LIABILITY OF OWNER FOR TAXES.

If any tax or other governmental charge shall become payable with respect to any Receipt or any Deposited Securities represented by Depositary Shares evidenced hereby or with respect to any optional conversion right with respect to any Depositary Shares, such tax or other governmental charge shall be payable by the Owner hereof to the Depositary. The Depositary may refuse to effect any transfer, split-up, combination or surrender of this Receipt or any withdrawal of Deposited Securities represented by Depositary Shares evidenced by such Receipt or any such conversion until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner hereof any part or all of the Deposited Securities represented by the Depositary Shares evidenced by this Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner hereof shall remain liable for any deficiency.

7. FILING PROOFS, CERTIFICATES, AND OTHER INFORMATION.

Any Owner of a Receipt may be required from time to time to file with the Depositary such proof of citizenship or residence, to execute such

certificates and to make such representations and warranties, as the Depositary may deem necessary or proper. The Depositary may withhold the registration of transfer of any Receipt or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities or the exercise of any conversion right until such proof or other information is filed or such certificates are executed or such representations and warranties made.

8. CHARGES OF DEPOSITARY.

The Issuer will pay all fees, charges and expenses of the Depositary, except for taxes (including transfer taxes, if any) and other governmental charges and such charges as are expressly provided in the Deposit Agreement.

The Depositary may own and deal in any class of securities of Issuer and its affiliates and in Receipts.

9. TITLE TO RECEIPTS.

It is a condition of this Receipt and every successive holder and Owner of this Receipt by accepting or holding the same consents and agrees, that title to this Receipt when properly endorsed or accompanied by proper instruments of

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transfer, is transferable by delivery with the same effect as in the case of a negotiable instrument; provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the person in whose name this Receipt is registered on the books of the Depositary as the absolute owner hereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in the Deposit Agreement and for all other purposes.

10. VALIDITY OF RECEIPT.

This Receipt shall not be entitled to any benefits under the Deposit Agreement or be valid or obligatory for any purpose, unless this Receipt shall have been executed by the Depositary by the manual or facsimile signature of a duly authorized signatory of the Depositary and, if a Registrar for the Receipts shall have been appointed, countersigned by the manual or facsimile signature of a duly authorized officer of the Registrar.

11. REPORTS.

The Depositary will make available for inspection by Owners of Receipts at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from Issuer which are both (i) received by the Depositary as the holder of the Deposited Securities and (ii) made generally available to the holders of such Deposited Securities by the Issuer. The Issuer will deliver to the Depositary, and the Depositary will, promptly after receipt thereof, transmit to the Owners of the Receipts, in each case at the address recorded in the Depositary's books, copies of all notices and reports (including financial statements) required by law, by the rules of any national securities exchange upon which the Depositary Shares are listed or by the Restated Certificate of Incorporation or the Certificate of Designation to be furnished by the Issuer to holders of Shares.

12. DIVIDENDS AND DISTRIBUTIONS.

Whenever the Depositary shall receive any cash dividend or other cash distribution on any Deposited Securities (other than cash dividends or cash distributions paid by the Issuer to the Depositary in lieu of fractional shares of Common Stock otherwise deliverable by the Issuer upon conversion of the Depositary Shares), the Depositary shall distribute the dividend or distribution thus received to the Owners entitled thereto, in proportion, insofar as practicable, to the number of Depositary Shares representing such Deposited Securities held by them respectively. In the event that the Issuer or the Depositary shall be required to withhold and does withhold from any such cash

such other cash distribution an amount on account of taxes, the amount distributed to the Owner of the Receipts evidencing Depositary Shares representing such Deposited Securities shall be reduced accordingly.

The Depositary shall distribute any distribution other than a distribution described in the preceding paragraph (including distributions of securities, property, Shares and rights to subscribe for additional Shares) in accordance with the Deposit Agreement.

13. RECORD DATES.

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights, preferences or privileges shall be offered or issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each Depositary Share, or whenever the Depositary shall receive notice of any meeting at which holders of Shares are entitled to vote or of which holders of Shares are entitled to notice, the Depositary shall fix a record date (which shall be the same date as the record date fixed by the Issuer in respect of the Shares) (i) for the determination of the Owners who shall be (a) entitled to receive such dividend, distribution, rights, preferences or privileges or the net proceeds of the sale thereof or (b) entitled to give instructions for the exercise of voting rights at any such meeting, or (ii) on or after which each Depositary Share will represent the changed number of Shares.

14. VOTING OF DEPOSITED SECURITIES.

Upon receipt of notice of any meeting at which the holders of Shares are entitled to vote, the Depositary shall, as soon as practicable thereafter, mail to the Owners a notice, which shall be provided by the Issuer and which shall contain (i) such information as is contained in such notice of meeting, and (ii) a statement that the Owners as of the close of business on a specified record date fixed by the Depositary pursuant to the Deposit Agreement shall be entitled, subject to any applicable provision of law, the Restated Certificate of Incorporation or the by-laws of the Issuer, to instruct the Depositary as to the exercise of the voting rights pertaining to the amount of Shares or other Deposited Securities represented by their respective Depositary Shares and (iii) a statement as to the manner in which such instructions may be given. Upon the written request of an Owner on such record date, the Depositary shall endeavor, in so far as practicable, to vote or cause to be voted the amount of Shares or other Deposited Securities represented by the Depositary Shares evidenced by

such Receipt in accordance with the instructions set forth in such request. In the absence of specific instructions from the Owner of a Receipt, the Depositary will abstain from voting to the extent of the Shares represented by the Depositary Shares evidenced by such Receipt.

15. FRACTIONAL SHARES.

No fractional shares of Common Stock will be delivered by the Issuer or the Depositary, as applicable, to the Owners of Receipts upon mandatory or optional conversion into shares of Common Stock.

In lieu of any fractional share otherwise deliverable in respect of the

aggregate number of Depositary Shares evidenced by a Receipt or Receipts of any Owner that are converted upon mandatory conversion, such Owner shall be entitled to receive an amount in cash equal to the same fraction of the Closing Price of the Common Stock as of the fifth Trading Day immediately preceding the Mandatory Conversion Date.

In lieu of any fractional share otherwise deliverable in respect of the aggregate number of Shares represented by Depositary Shares evidenced by a Receipt or Receipts of any Owner that are converted upon any optional conversion, such Owner shall be entitled to receive an amount in cash equal to the same fraction of the Closing Price of the Common Stock as of the second Trading Day immediately preceding the effective date of conversion.

If a Receipt or Receipts evidencing more than one Depositary Share are surrendered for conversion at one time by or for the same Owner, the number of shares of Common Stock and the amount of cash in lieu of fractional shares deliverable upon conversion shall be computed on the basis of the aggregate number of Depositary Shares evidenced by the Receipt or Receipts so surrendered.

In the event that (i) mandatory conversion of the Depositary Shares or (ii) voluntary conversions of the Shares represented by the Depositary Shares result in any Owner of Receipts evidencing Depositary Shares being entitled to cash in lieu of a fractional share on the related date of conversion, the Issuer will deliver (either directly or through the Depositary, as applicable) to all such Owners cash in an amount equal to the total amount of cash to which all such Owners of Receipts are entitled in lieu of fractional shares on such date.

If payment in cash in lieu of fractional shares of Common Stock in accordance with the preceding five

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paragraphs would result in the Issuer's failure to be in compliance with any debt instrument to which it is a party, the Issuer shall be entitled to deliver (either directly or through the Depositary, as applicable) a whole share of Common Stock in lieu of cash to Owners entitled to fractional shares of Common Stock (beginning with the Owners entitled to the largest fractional shares) until delivery of cash in lieu of fractional shares of Common Stock to the remaining Owners would no longer result in the Issuer's failure to be in compliance with such debt instrument.

16. LIABILITY OF ISSUER AND DEPOSITARY.

In general, neither the Issuer nor the Depositary assumes any obligation or shall be subject to any liability under the Deposit Agreement to Owners or holders of Receipts, except that they agree to perform their obligations specifically set forth in the Deposit Agreement without negligence or bad faith. In addition, neither the Issuer nor the Depositary shall be subject to any liability under the Deposit Agreement to Owners or holders of Receipts in certain circumstances described in the Deposit Agreement.

17. RESIGNATION AND REMOVAL OF THE DEPOSITARY.

The Depositary may at any time resign as Depositary under the Deposit Agreement by written notice of its election so to do delivered to the Issuer, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. The Depositary may at any time be removed by Issuer by written notice of such removal, effective upon the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement.

18. AMENDMENT.

The form of the Receipts and any provision of the Deposit Agreement may at any time and from time to time be amended by agreement between the Issuer and the Depositary in any respect that they may deem necessary or desirable. Any amendment that shall impose any fees, taxes or charges (other than taxes and other governmental charges, fees and expenses provided for in the Deposit

Agreement or in the Receipts), or that shall otherwise prejudice any substantial existing right of Owners of Receipts, shall not become effective as to outstanding Receipts until the expiration of 90 days after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner of an outstanding Receipt at the time any such amendment becomes effective shall be deemed, by continuing to hold such Receipt, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no

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event shall any amendment impair the right, subject to the provisions of the Deposit Agreement, of any Owner to surrender any Receipt or Receipts evidencing Depositary Shares representing Shares with instructions to the Depositary or an applicable agent of the Depositary to deliver to the Owner such Shares or to cause the conversion of such Shares into Common Stock and cash for fractional shares of Common Stock and, in each case, all securities and other property, if any, represented thereby, except in order to comply with mandatory provisions of applicable law.

19. TERMINATION OF DEPOSIT AGREEMENT.

The Deposit Agreement shall terminate at the close of business on the Mandatory Conversion Date upon distribution by the Depositary to each Owner entitled thereto of (i) shares of Common Stock and cash (whether in lieu of fractional shares or otherwise) received by the Depositary from the Issuer for mandatory conversion of, and/or dividend payments on, the Depositary Shares evidenced by the Receipt or Receipts held by such Owner, and (ii) all other securities, property and cash then held by the Depositary under the Deposit Agreement. On and after the date of termination, the Owner of a Receipt will, upon surrender of such Receipt at the Corporate Trust Office of the Depositary and payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the Depositary Shares evidenced by such Receipt. If any Receipts shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights as provided in the Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depositary (after deducting, in each case, any applicable taxes or governmental charges). At any time after the expiration of one year from the date of termination, the Depositary may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, unsegregated and without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds.

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[FULBRIGHT & JAWORSKI L.L.P. LETTERHEAD]

July 1, 1998

Tesoro Petroleum Corporation
8700 Tesoro Drive
San Antonio, Texas 78217

Gentlemen:

We have acted as counsel to Tesoro Petroleum Corporation, a Delaware corporation (the "Company"), in connection with (i) the preparation of a shelf Registration Statement on Form S-3 (Registration No. 333-51789) filed by the Company with the Securities and Exchange Commission (the "SEC") (such Registration Statement, as amended, the "Registration Statement") for the purpose of registering under the Securities Act of 1933, as amended, among other securities, common stock of the Company (the "Common Stock") and depository shares; and (ii) the preparation of prospectus supplements in connection with (x) the issuance of 5,000,000 shares of Common Stock (including 750,000 shares of Common Stock subject to the underwriters' over-allotment option), and (y) 9,000,000 Premium Income Equity Securities ("PIES") (including 1,350,000 PIES subject to the underwriters' over-allotment option) consisting of depository shares, each representing one one-hundredth of a share of Mandatorily Convertible Preferred Stock (the "Prospectus Supplements"). Capitalized terms used herein but not otherwise defined shall have the respective meanings set forth in the Prospectus Supplements.

In connection therewith, we have examined originals or copies certified or otherwise identified to our satisfaction of the certificate of incorporation of the Company, the by-laws of the Company, the corporate proceedings with respect to the offering of shares of Common Stock and PIES and such other documents and instruments as we have deemed necessary or appropriate for the expression of the opinions contained herein.

We have assumed the authenticity and completeness of all records, certificates and other instruments submitted to us as originals, the conformity to original documents of all records, certificates and other instruments submitted to us as copies, the authenticity and completeness of the originals of those records, certificates and

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other instruments submitted to us as copies and the correctness of all statements of fact contained in all records, certificates and other instruments that we have examined.

Based on the foregoing, and having regard for such legal considerations as we have deemed relevant, we are of the opinion that (i) the shares of Common Stock, the PIES and the Mandatorily Convertible Preferred Stock represented by such PIES, proposed to be issued have been duly and validly authorized for issuance and, when issued, delivered, sold and paid for in accordance with the terms of the Registration Statement and Prospectus Supplements, will be duly and validly issued, fully paid and nonassessable, and (ii) that the shares of Common Stock issuable upon conversion of the PIES have been duly authorized and reserved for issuance upon conversion and, when issued upon such conversion in accordance with the terms of the Certificate of Designation of the Mandatorily

Convertible Preferred Stock, will be validly issued, fully paid and nonassessable.

The opinions expressed herein relate solely to, are based solely upon and are limited exclusively to the laws of the States of New York and Texas, the General Corporation Law of the State of Delaware and the federal laws of the United States of America.

We hereby consent to the use of our name under the caption "Legal Matters" in the Prospectus dated May 14, 1998, and in the supplements which form a part of the Registration Statement. In giving this consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission promulgated thereunder.

Very truly yours,

/s/ FULBRIGHT & JAWORSKI L.L.P.