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Good morning. My name is Ross Pillari and I am Group Vice President of Marketing for BP. BP is a supplier of fuels for transport and power in the United States under the BP, Amoco and ARCO brands. We are also a supplier of lubricants to both the automotive and industrial markets under the BP and Castrol brands. We are a global energy company, and our 50,000 plus U.S. employees are proud of our position as the largest producer of oil and gas in the United States, the largest producer of solar power, and a leading marketer and refiner in this country.

I am pleased to appear here this morning to speak on behalf of my company and address the issue of gasoline price volatility. It is a subject that attracts the attention of many interested parties, but most importantly is on the minds of our customers as they make their buying decisions. The price of gasoline is also, a business issue for the thousands of gasoline dealers, distributors, refiners and energy companies who invest their personal and corporate funds in this volatile and intensely competitive business.

As each of these businesses works to manage within this complex market volatility, they are faced with trying to explain increasing gasoline prices such as we have seen in the last 60 days. However, when gasoline prices are low as they were in January of this year there are generally few questions and little understanding that this effect is also a function of volatility.

Yet, it is important to note that in this period and in similar periods of volatility, this country has, on average, maintained the most reliable supply and the most efficient distribution system, at the lowest prices in the world. This is an important fact because it demonstrates our ability to dampen at least some of the effects of volatility.

In the long run, gasoline prices are directly related to crude oil prices—over 90% of the change in gasoline prices is directly related to changes in the price of crude. In just the past 24 months crude prices have bounced from lows of around $12 per barrel to highs above $28 per barrel, and gasoline prices have moved in tandem. The increased gasoline price volatility over the last 18 months is consistent with the volatility in the price of crude oil.

Crude oil prices react to world events: Gulf wars, South American coup attempts, Mid-East turmoil, and wars on Terrorism. Crude prices react to world economic demand. As the economy improves in the United States, Europe, and Asia, oil demand will increase. The market will naturally adapt to the ebbs and flows of this demand resulting in normal market-based volatility.

As crude demand increases, crude supply has historically increased to meet it. We have seen additional resources brought on line in the Gulf of Mexico, in the Caspian Sea, in the Mid-East, in Russia, and other locations. In just one of these areas, the Gulf of Mexico, my company is spending billions of dollars to find these new resources. These investments for additional supply are based on an assumed long-term price for crude oil. But this is not likely to be a static price. It is more likely to be a volatile price based on the many factors I have already mentioned. This same volatility will naturally flow through and have an effect on the gasoline product markets.

The cost of crude oil is just one of the factors that influences gasoline price volatility. As we have seen in the past, supply disruptions from unexpected and catastrophic refinery problems, pipeline outages, and

import patterns will also cause volatility in our gasoline markets. While we have the most efficient and the lowest cost gasoline market in the world, we must recognize that this efficiency comes from highly efficient retailing, logistics, and refining, and from the competitive pressures to operate at the best economic levels possible. As in other industries, the latest techniques for ensuring that we maintain adequate stock levels in our delivery and working capital management are critical to delivering products to U.S. consumers at some of the lowest prices in the world.

But this is not done in isolation from the market. We must also find ways to establish an economically viable business and still meet our customers demand for high reliability and security of supply.

Volatility tends to rectify itself quickly with the natural actions of the market place. Changes in gasoline price affect supply so that the market reaches the equilibrium price where supply and demand is in balance. During this balancing process, the market experiences price volatility, and initiates the market-based actions that will attract the very supply that will dampen this effect.

Nowhere was this more evident than in the actions taken by our company to supply gasoline to the Midwest and West Coast during supply disruptions of the past two summers. BP reacted to these market conditions by taking several actions including:

- Blending chemical feed-stocks, normally used by our chemicals operations, into the gasoline pool to maximize volumes;
- Moving barrels from the Toledo refinery into Detroit to free up Chicago based refinery barrels for sale or supply;
- Transporting gasoline from our European refineries to the Midwest;
- Moving gasoline components from Kwinana, Australia to the West Coast, and
- Delivering additional volumes into Chicago via Explorer Pipeline.

As a result of these efforts, BP was able to make more of its gasoline available to the Midwest and West Coast, and to also dampen the price effect of the disruptions, but not without temporary price volatility as the market corrected itself.

At the street level, the U.S. gasoline market has gone through dramatic change over the last ten years—driven primarily by consumer demands for quick service, convenience products and low prices. The sale of gasoline has changed from predominantly full service stations to self-service; from repair facilities to convenience stores; from corner gasoline outlets to large hypermarkets, with multiple pumps, and often associated with food stores and wholesale outlets.

These changes continue and the driver of these changes is the consumer. The consumer is demanding better, and more progressive retail options for purchasing gasoline. These new outlets, whether investments by a jobber, an integrated oil company, or a grocery store chain, are complex and multi-faceted businesses. They require multi-million dollar investment, which must be remunerated in order to attract and encourage investment and new offer development. It is critical that the marketplace be given the space to work without artificial boundaries that would inhibit the normal economic tradeoffs. There is no slack in the economic drivers of this system that would allow for increasing costs or inventory to dampen or absorb price volatility

But we must look at the facts and analyze the impact of these market factors over the last few months. While we have seen volatility in gasoline prices due to world crude oil market volatility, we have actually experienced lower retail prices over the first part of this year.

According to DOE statistics the price of gasoline during the 1st quarter of this year has averaged about $1.20 per gallon compared with a $1.48 during the same period last year.

We have seen the price move from a low in January to their recent highs, which are still nearly 15-20 cents below the highs of last year. But as the price of crude oil has begun to stabilize, so have retail gasoline prices. At the same time, (according to the April 12th API statistics) gasoline production in the USA has increased by 3.6% over last year and nationwide inventories, including both RFG, as well as conventional gasoline are at or above their prior year levels. Consequently our customers are seeing lower prices than last year and higher supply reliability.

And this is a critical factor when considering how to react to volatility. It is not based on any one factor or influence. It is a function of the combined influences of the global marketplace, including crude oil and finished products, as well as the efficiency and reliability of our own refining and logistics systems. All of these factors contribute to both the increase in volatility and in eventually modifying its effect. No single factor is the cause; it is the totality of them that makes the market work so effectively in achieving each period of equilibrium.

Consumers in the U.S. continue to benefit from the intensely competitive U.S. refining and marketing industry. More sophisticated and cost efficient business models are constantly evolving in the marketplace at an ever-quickening pace. In the last few years, the market has seen the entry and growth of large format independent convenience store chains, the addition of gasoline at hypermarket and grocery store chains and the accompanying growth in their market share. The consumer has more offers and better offers to choose from.

At the same time the need to realize economies of scale, reduce costs, access new markets and better manage risks while continuing to deliver value to shareholders has resulted in a number of mergers, acquisitions, and consolidations. The net result is that cost reductions and efficiencies from mergers have resulted in greater value for the consumer, as evidenced by prices the same or lower than in previous years.

Therefore, as we think about the coming months and years, the outlook for crude oil prices is uncertain. The supply system in the United States is finely tuned, and catastrophic disruptions and outages can lead to temporary product shortages, resulting in tight supplies and short-term price volatility in the marketplace as it seeks to balance supply and demand. Our customers demand that we act quickly to minimize the effects of any temporary disruption. They are loyal but expect that loyalty to be rewarded with prudent and competitive behavior. To this end we continue to operate our refineries at high levels of production, maintain our inventories at levels required to meet their needs, and establish our role as a preferred supplier

The intensely competitive U.S. refining and marketing environment provides U.S. consumers with the lowest cost of fuel in the world. The marketplace works, and while it is working it will reflect the realities of the actions required to balance supply and demand. Artificial interventions are likely to result in unexpected consequences and unpredictable results.

As we have throughout this discussion, BP is prepared to continue to work with you and to be as helpful to you as possible. I would be pleased to take any questions.