





"We intend to meet the challenges of 2009 head on and, where possible, to turn them to our advantage . Our strategy is an enduring one. We are delivering upstream growth and making good progress turning around our downstream business. The future has not been cancelled.

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Our aim remains

to strike the right balance for our shareholders between investing for the future, providing current returns via the dividend, and ensuring an appropriate and prudent level of gearing.

"Our view is that the right current ba

lance is both to continue paying

the dividend and to maintain investment

to grow the firm - and to use the capacity of our balance sheet while the industry cost structure adjusts."

Hayward

said: "

We began our drive in 2007 to counter the cost inflation that had developed alongside rising oil prices. Our mantra is that every dollar counts and every seat counts and we are applying it with determination.

"As a result, we managed to halt the inflationary trend and to hold costs flat in 2008, despite the continued rise in oil prices for m

ost of the year

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Our aim this year

is to begin rolling back the inflationary trend

and

driv

e

deflation into the business

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We expect our costs to fall by around \$2 billion in 2009

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Predicting real opportunities for companies able and prepared to invest in readiness for the eventual economic upturn, Hayward said BP planned to keep this year's

cap

ital spend

broadly in

line with 2008, at between \$2

0

billion and \$2

1

billion, with lower spending in

Refining &

Marketing and Alternative Energy

and maintaining investment in

Exploration & Production.

"The last few years have been a poor time to put capital on the balance sheet, but the next few may be a lot better," he said.

Highlighting the main areas of ongoing performance improvement, he said the downstream business

had boosted its underlying profitability by some \$2 billion in 2008, though this strong progress had been masked by the biggest decline in US refining margins relative to the rest of the world in more than 20 years.

"However, our US

refining system including Texas City

has now re-established full operation and we believe there is a good chance that our refining business will return to profitability in 2009

, after a \$700 million loss last year. We also see further benefits from simplification, cost- efficiency and more competitive fuels value chains.

"TNK-BP reported a \$700 million loss in the fourth quarter of 2008, mainly due to adverse tax lag effects, but in the market conditions experienced so far in this quarter we expect to see a return to profitability.

"Our upstream business overall

is delivering good growth

, making BP the only supermajor to boost its production in 2008. Last year we said we expected to grow production to 2012

and that we could maintain it out to 2020 from existing projects. From existing projects we now expect to grow production to 2013

and

we have the potential for continued growth right out to 2020

at an average annual rate of between one and two per cent

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Combined with our r

eserves replacement of 121 per cent, t

hat's a great record to be able to cite in this, our centenary year, because it suggests that BP has no

t

lost

its traditional skill with the drill-bit,"

Hayward

said.

"And that's one of the many reasons why I believe

we can face the future

with

pride

, confidence and a

renewed sense of purpose."

- ENDS -

*Cautionary statement:*

*The reserve*

*s*

*replacement ratio and reserves and resources information contained in this press release are on*

*a*

*combined basis of subsidiaries and equity-accounted entities*

*This press release contains forward-looking statements particularly those regarding production growth; downstream turnaround; financial and operational momentum; positioning to meet future challenge; strategy; balance between investment, dividend and gearing; deflation; costs; capital expenditure; refining profitability; benefits of simplification, cost efficiency and competitive fuels value chains; and TNK-BP profitability*

*By their nature, forward-looking statements involve risk and uncertainty and actual results may differ from those expressed in such statements depending on a variety of factors including the following: the timing of bringing new fields onstream; industry product supply; demand and pricing; operational problems; general economic conditions (including inflation); political stability and economic growth in relevant areas of the world; changes in laws and governmental regulations and quotas; exchange rate fluctuations; development and use of new technology; the success or otherwise of partnering; the actions of competitors; natural disasters and adverse weather conditions; changes in public expectations and other changes to business conditions; wars and acts of terrorism or sabotage*

*For more information you should refer to our Annual Report and Accounts 2007 and our 2007 Annual Report on Form 20-F filed with the*

*US*

*Securities and Exchange Commission*

## **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.

BP p.l.c.  
(Registrant)

Dated: 03 March 2009

/s/ D. J. PEARL

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D. J. PEARL

Deputy Company Secretary