



**BG GROUP**

# BG Group

2008 Second Quarter & Half Year Results

24 July 2008

## BG Group 2008 Second Quarter & Half Year Results

Introduction - Chris Lloyd, Head of Investor Relations

*Good afternoon ladies & gentlemen and welcome to BG Group's second quarter results.*

*During the course of this conference call, Frank Chapman, Chief Executive, will take you briefly through the quarter's key business highlights, and then Ashley Almanza, Chief Financial Officer, will look in more detail at the financial results. After this we will take questions.*

*During this presentation we'll be focusing on our Business Performance as highlighted in our results statement. We will also be making various forward-looking statements. Factors that could cause our actual results to differ materially from the results we currently expect are identified in detail in the statement issued today.*

*Thank you and now over to Frank.*

Frank Chapman, Chief Executive

Good afternoon, Ladies and Gentlemen. You'll have now seen the results statement

BG Group has delivered another strong financial performance this quarter. Our total operating profit increased by 92% to £1.43 billion and our earnings per share doubled to 24.1 pence. These increases were primarily due to higher volumes in E&P and higher commodity prices.

And to emphasise that this is not just a result of prices; the underlying total operating would have increased by 26% for the half year at constant US dollar exchange rates and upstream prices.

Moving now to our business segments.

In Exploration and Production, total operating profit for the quarter increased by £411 million to £976 million, reflecting higher commodity prices and increased production volumes. For the half year, total operating profit increased by £727 million to £1.92 billion.

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We have made significant progress with our expanded exploration programme in this quarter giving us a success rate of 15 out of 22 completed wells in the first half of the year.

In June, we announced the Guará oil discovery, the second in the BM-S-9 concession area in the Santos Basin, offshore Brazil. This is the fifth consecutive drilling success in the Santos Basin pre-salt play. We are now awaiting the results from the Iara exploration well in BM-S-11, and news on this is expected shortly.

Discoveries have also been made in Algeria on the Hassi Ba Hamou Permit, and in Trinidad & Tobago with the Bounty well on Block 5(c). In Thailand, the Ton Sak well is our seventh consecutive success in the last two years.

In the UK, the recent appraisal programme undertaken at the Jasmine field confirmed the presence of hydrocarbons in a separate structure located to the northeast of the initial discovery well.

And the first Jackdaw appraisal well was successful in identifying additional reserves in a new and higher-quality reservoir section. A sidetrack well has been commenced to appraise further this discovery. The Moth exploration well, located in the central North Sea, was also successful.

In Norway, there have been successes at the Jordbaer and Pi North wells in the Norwegian North Sea. And in the Barents Sea, the Ververis well has discovered hydrocarbons and has been classified as a discovery by the Norwegian Petroleum Directorate. We are currently evaluating the results of this well.

BG has now made a total of 4 discoveries in Norway. In addition we have the existing Bream discovery to appraise, and some good quality prospects to drill out, most notably Mandarin which will be spudded in 2009.

Moving now to LNG, performance once again was excellent. For the half year, LNG total operating profit increased by £553 million to £762 million.

During the quarter we signed agreements with Petrobras to provide the maiden LNG cargoes to be delivered into Brazil's new LNG import facilities.

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In Hong Kong, we signed an agreement with the Castle Peak Power Company, to supply one million tonnes per annum LNG to the company's planned import terminal, for a period of up to 20 years; and this followed on from our other Asia Pacific market successes in Singapore and Chile

In Australia, our partner QGC made good progress in proving up reserves to feed our joint venture LNG project at Gladstone, which is progressing well. The Queensland Curtis LNG project has been granted "significant project" status by the Government of Queensland, and Bechtel have been appointed to commence work on the Front End Engineering and Design study.

In Transmission and Distribution, total operating profit was £86 million for the half year. On an underlying basis, total operating profit would have increased by 19% to £117 million.

And in Power, we saw an increase in operating profit of 13% for the half year.

In summary then,

- We delivered another strong financial performance for the quarter.
- We doubled our earnings per share;
- We made significant progress in our expanded exploration programme, most notably in Brazil; but also in Algeria, Norway, Trinidad and Tobago, Thailand and the UK; and
- In our LNG business, we saw another excellent performance.

And now over to Ashley for a more detailed look at the financials.

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Ashley Almanza, Chief Financial Officer

Thank you Frank; and good afternoon ladies and gentlemen.

Let's begin with the E&P segment.

Production volumes were 2% higher reflecting increased production from Buzzard, Tapti and our fields in Trinidad. These production increases were partially offset by the impact of the industrial action at Grangemouth in April, an extended shutdown at Armada and the shutdown in India, following the tragic incident on the Panna platform. We estimate the impact of these one off incidents to be around 2.0mmboe.

Average gas price realisations rose by 35% year on year. In the UK, spot prices were strong and higher proportion of our gas volumes were drawn by our contract customers. Around 80% of our UK gas production was sold on contract and our average realizations were around 33 pence/therm. For the gas contract-year ended 30 September we expect to realize around 34 pence/therm in line with our previous guidance. As usual, I will update you on our contract expectations for the next gas year during the third quarter results announcement.

Unit operating costs were \$6.47 per barrel for the quarter, and \$5.99 for the half year as higher prices fed through to royalty costs. Our full year unit-opex is expected to be around \$6.25 per barrel.

As expected, our unit depreciation charge for the half year was £2.82 per barrel of oil equivalent up from £2.34 last year and this reflects the effect of new assets coming into production over the last year.

The exploration charge increased by £22 million to £94 million reflecting a higher level of drilling expense due to the increased scale of our exploration and appraisal programme. We expect our gross exploration expenditure for the full year to be around £850 million, reflecting good progress with our drilling plans and increased seismic work as we move forward with our Santos Basin programme. For the full year we anticipate an exploration charge of approximately £425 million.

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Turning now to the LNG segment

Our shipping and marketing business delivered a good performance and operating profit increased from £73 million to £345 million. The favourable market conditions experienced since the end of 2007 have continued in 2008 and for the half-year we delivered around 80% of our cargoes to markets outside of the United States.

The outlook for this year remains strong and on this basis we now estimate that our Shipping and Marketing business will deliver an operating profit of around £1.3 billion for the full year.

For the LNG segment as a whole, operating profits rose from £88 million to £367 million.

Total Operating Profit in Transmission and Distribution was down £15 million to £55 million due to the timing effects of higher gas costs at Comgas. Comgas has received a tariff increase from the Regulator to enable it to recover these higher gas costs. While we are already recovering past costs under the regulatory formula, the rapid increase in oil prices, which feeds through to the cost of gas, means that the recoverable balance has increased to £62 million, most of which will be recovered in 2009.

Looking through these timing effects, Comgas' underlying performance was strong with a 13% increase in volumes in the first half. Excluding movements in the regulatory current account and the impact of exchange rate changes, underlying profits were up 19% in the first half.

In the Power segment, Total Operating Profit was up 29% at £40 million. This increase includes the impact of a one off reimbursement of past costs in Italy. For the half-year the effect of this one-off benefit is largely offset by a prior year credit at Premier Power. The integration of our new power assets in the US is progressing in line with our strategy and provides us with the ability to maximise rent between LNG, gas and electricity.

For the Group as a whole, Total Operating Profit increased by 92% to £1.4 billion and Earnings per share more than doubled to 24.1 pence per share. At constant US Dollar exchange rates and upstream prices, the underlying increase in Earnings was around 31%.

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Cash generated from operations rose by 92% to £1.6 billion. Capital investment was £950 million in the quarter and £1.6 billion for the half year. Our full year guidance remains at £3.1 billion.

In line with our established policy the board has approved an interim dividend of 4.68 pence per share, which is half of the 2007 full year dividend.

In summary then, the Group delivered a strong performance for the first 6 months and looks set to deliver a very good financial performance for the full year.

That concludes my remarks and now Frank and I will be pleased to take your questions.

Frank Chapman, Chief Executive

Thank you, Ashley. Please could you state your name and company when asking a question?

### Q&A section

Jason Kenney, ING: Bit of a general question really. Your quarterly profits this quarter are more than your annual profits in 2003, and indeed are close, very close to your annual 2004 earnings. Do you have to think four times as fast these days with the kind of oil prices and gas prices we're seeing? I mean, obviously there is a good underlying upside there. And you know, I did a similar comparison on capex, your expected £3.1bn this year. This is only twice that of 2004. When do you expect the capex to lag, or is it really down to the macro?

Frank Chapman: Well, Jason, it's very kind of you to start off on such a positive note. Thank you very much for that. Of course if you look at the operating profit over a longer period, if you go back in fact to 1996, the operating profit's gone from £36m in 1996 to last year £3.25bn. And as you see from the results already this year, we'll make very significant progress from that level. So we're probably

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looking at something like 35% to 40% compound growth rate in this parameter over that period.

So this is something that's not just really confined to the last couple of years; it's been a characteristic of the programme. And if you take out prices and look at the underlying growth, of course the company has continued to grow in an underlying fashion.

So the company is a high growth vehicle, and that's what you're seeing when you compound that with stronger prices.

Jason Kenney, ING: And the capex lag? I'm just trying to get a handle on how opportunities could be accelerated because of your sizeable profits and the ramp-up in profits over the last few years. And while profits are nearly four times - the quarterly profits are more than your 2004 annual results, but your capex is only twice the level of 2004 - your planned capex. So is there going to be a step up in that this year, next year, whenever? I mean, you've already given the 3.1 for this year.

Frank Chapman: We've given the 3.1 for this year and we've laid out our capital plans, certainly in the projects that we're pursuing out to '09 and beyond that to '12. So I think you can expect that certainly - if you look at simply our resource base - 10 billion barrels of oil equivalent total resource base, and you look at within that some very large projects, it's clear that those projects are going to demand substantial capex.

So although, in the near term, our guidance is unchanged, clearly once you get out beyond the three year period and we start to accelerate investment in projects like Tupi and Karachaganak, I would expect capex to increase.

Jon Rigby, UBS: Couple of questions. On the LNG outlook, can you describe to me the degree of visibility that you have over the short, medium

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and long term? What I'm trying to get at is - what do you know for certain you're going to do? What are you in discussions that you think you've got a pretty good fix on? And at what point do you have to look at the market and make a sort of informed guess about the kind of earnings and activity that you're going to see?

That's the first question. And the second one is - I think Frank's quoted on Reuters today talking about Guar as being possibly the best yet in terms of discoveries in Brazil. Could you elaborate a little further on that?

Frank Chapman:

Jon, I'm sorry to be a bit of a broken record on this. Someone asks me every quarter, and I was asked by the media on about three occasions this morning to give views on what's happening and what's the outlook for pricing, and how much is going to the UK, US and our various other markets.

We do have a very large team. Our strategy is about identifying valuable markets - global gas markets - and connecting competitively priced resource to that. So we come at the whole business from the perspective of trying to understand the markets in a great deal of detail, and we do a lot of primary research of our own in terms of supply and demand balance and pricing structures in each and every one of these markets.

So we have a very large team - most of these people sitting in Houston - who are working on primary market analysis.

Now we don't intend to tell anyone about what we think. This is proprietary information; it is commercially sensitive and we do take a view. Actually, we'll of course say that we're not a trading company so we're not speculating on the basis of our view. But this view of course is important in determining how our portfolio will be balanced.

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Jon Rigby, UBS: Sure, I understand that, but what I mean is - it's a fairly new market and to the outsider it's opaque. All I'm trying to ask - and I don't want you to tell me what you think; I'm just trying to understand the bases around which you're able to form an opinion. So what is almost certainly firm? What have you got a very good fix on? And at what stage does it become much more sort of interpretative and a view that you've got to take over the market?

Frank Chapman: Well, Jon, we've set out for a number of years, and then updated in February, our guidance. We've got guidance out there for '08 and '09. And I would say that as this business has developed and matured within BG - it's still growing very quickly of course - that's something that you have to take into account. But the base has become increasingly secure, so that's the first point I'd make.

And clearly we've learnt as we've gone along how to best optimise this portfolio. So there has been constant increment to the base.

But to your question, the base is increasingly secure. We're better able to understand and get visibility on the business, certainly '08 and '09. And consequently we're able to give guidance, you know, two years out. Beyond that we've said that we think our portfolio is favourably positioned against the market for five years or more, because we don't see the opportunity to optimise this portfolio diminishing in that period.

Okay, so the business has really developed a long way, as I'm sure you'll appreciate, in terms of the number of markets we're supplying, and the task become ever greater in terms of understanding the dynamics in this period before this LNG becomes more perfect in its nature and more global. So this is a very interesting period through which we are living at the moment.

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With respect to the Guará discovery, I am of course absolutely delighted to have drilled the fifth consecutive discovery in a virgin basin. It's not many times that that happens in one's career - to drill five wells in a new basin on the bounce, and have all of them discoveries. I mean, we did create a record in my career earlier in this process with West Delta Deep, where in Rosetta and West Delta Deep - the Nile Delta, I should say - we drilled 17 successes on the bounce and I think the stage is set for us to drill a whole succession of successful exploration and appraisal wells in Brazil.

I think that my comments this morning about Guará were in relation to the reservoir characteristics, both in terms of the thickness of the reservoir, its permeability and its porosity, and important information and ideas that we're developing regarding the position of this well relative to the structural boundaries of this prospect, such that we're developing ideas from it as to where the more porous and more permeable areas might exist in other structures.

So a very, very good well - delighted with it. We're going to of course drill Iguaçú in the same BM-S licence next year. We're yet to confirm the drilling rig and the timing. And that will give us a clearer picture of the overall prospectivity of BMS-9. Of course that's the block where we had the earlier Carioca discovery. Now we've got Guará and Iguaçú which was to the south of Carioca - will give us a much clearer picture of how this whole thing fits together.

The next one out of the blocks will be Lara, as I mentioned in my remarks earlier, which is in BM-S-11, and to the north east of Tupi. And this will be coming along in the third quarter, and I'm really looking forward to learning more about that and sharing more insight.

Theepan Jothilingam,

Morgan Stanley:

Good afternoon, gentlemen. Just a couple of questions actually. Just firstly on your exploration programme, I mean you had significant success in Q2. I was wondering whether you could

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give us a success rate for the first half. And then outside Brazil, if you could - I know you've highlighted Mandarin for 2009; I was just wondering whether you could flag some further sort of key campaigns for the second half that the market should watch out for.

And then secondly, just in terms of volumes, I was wondering whether you could just reconfirm the target for 2009 and then sort of talk about the progress on the key projects and where you see any potential risks.

Frank Chapman: Yeah, 2009 - let me just ask Ashley to talk, unusually, about the exploration programme, for a change. We can role swap at times.

The targets for 2009, we're happy to confirm. I mean, we've had some one-off events this year - or this quarter, I should say - which hopefully next year we'll not see a repeat of. The other projects which are coming on stream of course are Trinidad and Tobago, where we're building up. In fact, you'll recall that the 2009 programme, in the presentation we made in February, talked about five projects - Hasdrubal, Buzzard, the Tapti project, Trinidad and Tobago, and I think that was it. Yeah, so these projects were the ones that were feeding in. And all of those projects, most notably the Trinidad and Tobago domestic gas sales project and Hasdrubal, are going to be the new projects coming on. Plus we've got a quite extensive infill drilling programme going on, for example, in Rosetta, in West Delta Deep and in the Miskar field, which will see some further production capability, together with facilities, capacity increases coming through there.

So these are the three elements that will enable us to get from the levels that we've seen in this quarter to the overall production level that we expect next year. So discounting the one-off effects, such as Grangemouth and the Armada tie-in, where

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we're tying in the Rev prospect from Norway, and those things related to that effort. Plus the new projects coming on - Hasdrubal and Trinidad. Plus infill drilling in a number of wells.

This should see improvement. And of course you will have noted that we have also been making progress in Karachaganak, very good production there. We on our best days have exceeded Buzzard production target by 10%. So there's plenty of capability in our portfolio to achieve the 2009 targets.

Ashley Almanza: Theepan, on Exploration, for the half year we've drilled 15 from 22, so a success rate of 68%. The programme going forward is largely unchanged from that which we set out in February. Obviously Brazil is a core part of the programme now, and - as Frank mentioned - we're expecting news on Lara soon. We've got the Corcovado well at the turn of the year, which is a high impact well for us. Egypt - we've got the El Burg and El Manzala blocks. And we've got Trinidad, Norway, UK, Nigeria, Oman - we've got quite a broad programme. So I think that the exploration success we've seen in the first half of this year is a standout feature, actually, of the half-year results. And the programme for the remainder of this year and the two years that follow is pretty exciting.

Frank Chapman: I would say that one of the consequences of success is of course that some of the programme on exploration wells goes out, so it's mortifying for me to know that Mandarin's going to be a bit later because the drilling rig is held up drilling a sidetrack on Jackdaw.

But this is the right way to do it, and you know, it's a sign of success in actual fact.

Oswald Clint,

Sanford Bernstein: Two questions, please. The first is really on your exploration but focusing in on the Barents Sea. Obviously you've had a discovery and you also have a share in a discovery last year. I'm

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just wondering how that information has sort of shaped your confidence of this frontier region, and can we expect you to be pushing to boost the acreage in the 20th Norwegian round that's currently ongoing?

Frank Chapman: I mean, of course we are happy. We've drilled a couple of wells and we've had a couple of successes, and both of those need a further analysis and - certainly in the case of Nucula, which was the first discovery up there, I do expect that we'll drill an appraisal well. It may even start this year but certainly early next year we're expecting any time a proposal from Statoil-Hydro to drill one or probably two appraisal wells up in Nucula. So there's a bit of work to go on.

We are enjoying a period of success in Norway - four successes plus one acquired discovery - resource opportunity - in the form of Bream. There is now an extensive new licensing round approaching. We've got a team working on that, and our ambition is to add materially to our portfolio, provided of course we like the look of the blocks.

Oswald Clint,

Sanford Bernstein: Okay, and secondly just on Karachaganak, I wonder perhaps if you could even at best quantify some of the changes occurring there in terms of the new oil export duty, next year's production tax, and also I believe the corporate tax rate is due to decrease as well. So a couple of moving parts there. I wonder if that's going to have any material impact to your operations there?

Frank Chapman: Well I think the context in Kazakhstan is that of course BG has created a huge amount of shareholder value and a huge amount of value for the government by its efforts in Kazakhstan. I mean, Karachaganak has really performed excellently, and unlike other projects in Kazakhstan, has exceeded by a margin the government's expectations, and has exceeded our own design target. So that's the sort of general context - value creation and delivery above expectations.

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The issue of export tax - I want to be very clear on this one - BG does not believe that this duty is payable because of very clear tax stabilisation clauses that are in the Karachaganak FPSA. Now we are addressing this issue with the government, utilising the mechanisms that are built into that contract.

Of course, meanwhile, the finance ministry has made comments that we will be allowed to cost recover this tax under the PSA in any event. So that would seem to indicate that the economic impact of this tax is not going to be significant to BG and its partners at all. However, quite aside from that comment, we are coming at this from the perspective that this tax - and indeed any of the taxes that you mention - would be and are covered by the stabilisation clauses central to the FPSA terms.

Now we are paying the tax, but that is not unusual in any jurisdiction. The normal way to deal with these matters is to pay the tax - and in this case under protest - and to seek redress under the contractual provisions that one has at one's disposal.

Colin Smith,

Dresdner Kleinwort: Afternoon gentlemen, on the Karachaganak tax thing could you just confirm roughly what the quarterly costs of that to you is - under protest as it is? And secondly can you also confirm that you do expect to take sanction on Phase III development this year?

And separately on Guar can you just confirm whether or not a full testing programme has been completed or generally comment on the reports that Petrobras has been needing to take rigs off to complete well commitments elsewhere rather than completing full testing?

Frank Chapman: Guar is suspended at present and it is indeed in order to allow the drilling up of other prospects. And of course this does benefit BG as well; because we're very interested in ensuring that our programme is drilled up in accordance with the licence or the

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concession conditions, work programmes, such that we get to keep all these prospects. So there is a common interest here and where we have completed a full logging programme and a full coring programme and have got sufficient data to know whether we need to come back to this place then it is in our interests to agree the suspension of the wells, it's not an abandonment and allow the rig to move away.

In fact we have already or are about to file an application to ANP for extended well testing and development of the Guará structure, so in a similar way that we've done this on Carioca. So you shouldn't read anything negative into the fact that on occasions rigs move on before they do the testing when you're developing an area, or drilling a lot of wells in an area and you're able to correlate the results from one well, from one set of cores, from one full suite of logs with what you've observed in other wells, you are getting a picture. And all of these wells as I say are being suspended and it is the intention to return to these wells for testing at a later date.

So I think that actually could be seen - and we certainly see it as a positive, because it helps us to retain the maximum number of prospects in our portfolio.

Ashley Almanza: On Karachaganak Colin, little to no effect on the second quarter. This is much more a question of prospectively how this tax will apply. It's just over \$100 a tonne and as Frank has said we're paying it but pursuing a refund of those amounts and cessation of the assessment.

Frank Chapman: Phase III Colin, FEED is ongoing, it's well advanced now, well over the half way mark - three quarters complete thereabouts. Discussions between the partners and the Kazakh Authorities on the scope of the project, the timetable, these sorts of issues are continuing and we will have more to say on this subject in the third quarter. We're at quite an important stage in these

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discussions with partners and government and we'll be in a position of greater certainty and assurance to discuss that with you when we publish our 3Q results.

Colin Smith,

Dresdner Kleinwort: Okay, just a quick one on the - export charge that you are paying. Is that just for condensate or does it include the gas as well?

Ashley Almanza: It's just the oil, Colin.

Edward Westlake,

Credit Suisse: Yes good afternoon, switching areas again, I'll take you around the world. Oman obviously we're three months further down that programme, maybe an update there? Just on UK gas prices, it's interesting that BG is subsidising UK consumers on their contract price and I'm just interested to hear if there is a strategic reason for that - or some talk about that. And then finally I know you've said you're not trading, but obviously your commodity and contracts and derivatives position is expanding. Is that just a natural relationship with the growth of the business and the higher prices or is anything else going on on the balance sheet there, thanks?

Frank Chapman: Okay, I'll get Ashley to come back to UK consumer subsidisation and derivatives in the trading just in a moment. On Oman, we plan to drill a total of ten wells, we're actually at the moment on wells four and five. The programme is going well, the amount of data we've collected from the first wells including production data is still under analysis and we'll be in a good position as we complete the whole programme to be able to tell you more about what we see there.

I think that this is a fairly complex tight gas reservoir and we need to have a picture of the overall play rather than trying to predict the overall scale of the potential there from the first wells. So we're going to have to be a little bit patient, this isn't anything

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new, I think we've made this very clear. We'll have to drill ten wells before we really have a good grip on the overall potential.

Ashley Almanza: Ed, your two questions are actually related. The subsidisation, we realised 33 pence a therm in the second quarter, our guidance for the full year is 34 pence a therm. As you know, we've got legacy long term gas sales agreements in our portfolio and when the spot price spikes as it did in the second quarter then our customers pull harder on those contracts in preference to buying in the spot markets, so about 80% of our UK gas was sold under contract in the second quarter. As you would expect they can't do that all year long, they have got an ACQ limit and so we would expect that to come back somewhat in the third quarter.

Beyond the third quarter, actually the outlook for gas price realisations in the UK, I would describe as positive.

In terms of the commodities and derivatives that you can see on the balance sheet, there are several effects here. Firstly it's those UK legacy contracts again - they are classified under IFRS as derivatives - the entire contract. And consequently you have to mark them to market. And when the spot price goes up you get a larger movement in the mark to market.

So our net commodity and derivative position is a balance if you look at the assets and the liabilities of about 700, of which 500 relates to the long term UK gas contracts. The balance is a reflection of two things - both related to the LNG business. The first is increasing prices in the LNG business. And what we do is we hedge the margin in our LNG business. And if you have a flexible portfolio which you routinely re-optimize, in other words you change the destination of your LNG dispatch. You also change your hedge book to match that. And under IFRS you can't report the net position. So I'm afraid it's a boring accounting explanation. You take your position off by buying or selling at

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equal and opposite position and you put a new hedge on for the new destination and you have to gross all of those up.

So that's what you're seeing really, it is a reflection of our LNG business growing, LNG prices rising and the fact that you have to gross up the asset and the liability.

Andrew Whittock,  
Oriel Securities:

You've spoken a lot about the very encouraging exploration results received in the quarter. I was wondering if you could give us a bit more detail of the scale if you like of the discoveries you've made, particularly in Trinidad and Norway?

Frank Chapman:

Well let me just say that we are at an early stage in some of these things. For example, our discovery in Trinidad, Bounty, is going to enter production testing phase in the next few days. And ditto for Jordbaer in Norway. So I think that until we've completed the programmes on those two wells we wouldn't like to comment any further on scale.

With respect to Nucula and Ververis, Ververis has just completed a very short time ago and our classification of a discovery is based upon core data and on logging suite. So this is definitely hydrocarbon bearing no doubt. As to the scale and productive capability of this reservoir we will not know the answer to that until we've done our work as I indicated indeed in my earlier remarks.

Nucula is already I believe an economic discovery but the extent to which that is the case - the absolute scale of it will require further appraisal wells. You remember that a discovery not far from Nucula in the same play which is the Goliath discovery with ENI requires quite a lot of wells to get to - to decode the DNA and arrive at an idea of the scale. And in that case of course this has become quite a significant discovery and we're hoping for positive things to happen in Nucula but of course we won't know that until we've drilled the appraisal wells.

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So I think the message here is that there are some very interesting things happening. Two discoveries in the Barents Sea, the first wells we've drilled up there, Jordbaer which is a very interesting HPHT play of the type that we've been very successful with in the UK. Testing a completely new and untested play in Norway and opening up prospectivity both in other blocks associated with this particular prospect as well as in adjacent licences where BG has up to 70% equity in other similar plays in these adjacent blocks.

So Jordbaer is particularly interesting, Nucula is interesting, Ververis early days, Bounty is material. Pi North is a small tie back; it is significant, valuable these days, but relatively small. Algeria - there is a very interesting gas discovery there. So these sort of give some indications.

Of course as soon as we've finished our work and we're able to do so we will disclose to you our range of reserves for each of these discoveries.

Andrew Whittock,  
Oriental Securities:

I shall look forward to that Frank. Whilst I've got Ashley, I noticed that the sensitivity of your operating profit to changes in the US dollar has been revised again. And I wondered if you could just talk us through what's driving that change.

Ashley Almanza:

There are a number of things. One is the increasing oil price obviously, which is having an effect. International gas production is linked inevitably to the US dollar in many cases, particularly as the Henry Hub Index gas sales agreement. And thirdly, finally our LNG business which as the profitability and scale of that business grows that too is a US denominated business and consequently our sensitivity to changes in the sterling/US dollar exchange rate increases as well. So those are the main drivers, Andrew.

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- Andrew Whittock,  
Oriental Securities: So just really reflecting the growth in dollar denominated business you're doing?
- Ashley Almanza: Absolutely.
- Kenan Najafov,  
Exane BNP Paribas: Good afternoon gentlemen. First of all congratulations on the strong results, a lot of my questions have been answered but one of the remaining is about the 2008 production guideline. Has it changed at all considering the events in Q2?
- Ashley Almanza: We haven't got specific guidance, we've got guidance for 2009, 2012, so I think the direct answer to your question is that we've identified one off effects in the second quarter which cumulatively we estimate at two million barrels. And clearly we won't recover those barrels in the current year. That's the only adjustment to current year.
- Kenan Najafov,  
Exane BNP Paribas: The next point is about LNG, I understand you have limits about what you can discuss. But I was hoping you could shed a bit of a light on the EBITDA and or revenues for the shipping and marketing sub segment of the LNG for this quarter and going forward?
- Ashley Almanza: Sure the guidance that we've put out is at specific reference conditions and the guidance is intended simply to provide a highly simplified model of the financial performance of the business. And we have an EBITDA margin of 30% for '08 and '09. Clearly we are doing substantially better than that. Our EBITDA margin is nearer 50% and as I indicated on the call earlier we now expect the shipping and marketing business to deliver a profit this year of £1.3 billion sterling.
- Paul Spedding,  
HSBC: Good afternoon, a quick question on gas prices in Egypt if you could perhaps update us on any progress in possibly getting

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higher domestic gas prices there and whether there are any other areas of the world where there is the potential to see relatively low gas prices pushed upwards?

Frank Chapman: Well we are able to say that at last our proposals have been agreed by the People's Assembly in Egypt. So domestic gas pricing will change and this represents good value for BG. I can't give you the commercial details unfortunately because they are confidential. But I can assure you that this represents material and good value for BG.

Now in terms of how mindsets change and how this may affect arrangements elsewhere - I think you shouldn't see these things connected. What governments are continuously doing of course is to assess the performance of their industry. One of the issues that they are having to consider is the way costs structures are changing and the degree to which their terms are competitive relative to other investment destinations. And so here of course what we've seen, and this is the other side of the coin if you like to increasing government take at high oil prices. It's the other side of that coin, governments seeing that actually it needs to support and reinforce the revenue side for domestic gas to ensure that sufficient development goes on aimed at supplementing existing domestic supplies.

So I think that's a normal process, it's a sort of market process if you like. And unless governments do act in this way they will see investment going elsewhere.

Kim Fustier,  
JP Morgan:

I had two quick questions; firstly I appreciate the timing on the lara well in 3Q as you mentioned a couple of times. Is there any way you could tell us the nature of the update and in particular as to whether we can expect a quantification of size or rather an announcement similar to the more recent Petrobras announcements which only commented on discoveries being significant?

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And secondly just a follow up question on your gas contracting business, can you remind us the exact timing of when you renegotiate your contract gas volumes and exactly how much you intend to contract, thank you?

Ashley Almanza: On the gas contract in the UK it's not exactly a renegotiation it's a resetting of a price formula based on a predetermined indices. And that occurs at the beginning of October each year. We I'm afraid to say don't disclose in advance how much we will end up contracting. But we'll be very happy to give you that update with the third quarter results.

Frank Chapman: Now with respect to Iara I expect that I will be saying something not dissimilar to what I've said about Guar, I'll tell you whether or not it's a success. We may give something about the reservoir thickness; I will certainly give you qualitative indications as to whether I think it's a good thing. I thought Guar was absolutely a great well to have drilled, it's a great discovery, very good reservoir conditions and I will be able to give you similar information at that point once we've completed this well. And I suspect with all of these things we'll be rather more measured in respect of putting volumes on these things until we learn more about the overall setting and about the performance of the wells, which of course will be aided greatly when we perform the first extended well test on Tupi next year.

But you shouldn't take anything other than you very positive signals from me today about our progress in Brazil.

Lucas Herrmann,  
Deutsche Bank:

Thanks very much good afternoon gentlemen. Three questions now if I might. The first is just on Curtis LNG and just reading through the narrative you talk about first LNG train 3 to 4 million tonnes per annum expected to be produced in Q3 2013, with the second train in operation 6 to 12 months later. I just wondered whether you can expand on that statement and whether you are

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now basically talking potentially 6 to 8 million tonnes of LNG being on stream by shall we say the end of 2014?

The second I think it partly follows on from Jon's question earlier, I appreciate that LNG is not simply a trading business. But if you're sitting on sort of my side of the desk and what you can see at the moment is a raft of new projects scheduled to start up over the next 12 to 18 months, many of which have volumes which are - I won't say dedicated to the States but you know where the US was an intended end market. How should we feel about your ability to continue to capture differential on margin? I guess what in effect what I'm saying is how much confidence can you give us on the extent to which you know profit is locked in?

And I appreciate the guidance on EBITDA but the EBITDA guidance is set against a Henry Hub price of 7.25 which you know in today's world isn't hugely useful.

And the third question then Frank just listening to your comments on Guar, if you were sitting today with the earlier results from the Tupi well and the earlier results from the Guar well which would you feel happier with? Put the one in the context of the other.

Frank Chapman:

Well I think I can say without any doubt or any concerns about saying too much or upsetting any of our partners that the Tupi one as a great discovery, the Tupi Sul well was a much better discovery in terms of the reservoir characteristics, I say much better - it was a better discovery and we tagged oil in other horizons.

But the Guar reservoir is better still; the size of the closure on Guar and whether it connects to other structures such as Iguu and indeed all the way to Carioca will be the subject of further work. So the actual total volume within BM-S-9 whether that's delineated by a single structure or whether Iguu, Guar, Carioca and so on are individual structures that's a matter for further appraisal. So I'm not expressing my enthusiasm about

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Guará at this stage in terms of its overall scale. I'm expressing my enthusiasm about it because it is a very material discovery, but more over it has demonstrated very good reservoir conditions in that area. And maybe given us some clues as to where we might find the best reservoir in other structures elsewhere.

So this is early days to maybe making those sorts of statements but we've learned some very important things with Guará and that's why it occupies such an important place in my thinking.

No way would I ever say that I'm not really delighted to have Tupi in our portfolio. It fills the whole of BM-S-11 and it's pretty good.

So LNG, I'll let Ashley answer the question on trading. In terms of the first train I guess you probably pulled some information off of BG's site at some point, you know we've made announcements in the past about being 3 to 4 million tonnes train, \$8 billion of total investment through the chain. We talked about Q3 '13 for the first LNG, end of 2013. And what we've also said and maybe this is what you are picking up on is that we would plan to arrange for the engineering and the construction contract to allow for the sequential building of a second train of LNG some 6 to 12 months after the building of the first train. And this is indeed what we did in Egypt and what we did with trains two and three in Trinidad. Because this 6 to 12 months delay, a sort of 9 month delay is quite optimal in terms of letting trades move sequentially from one train to the other.

So when the civil works are finished on one train, the civil works people can go over and continue to work on the other. So the whole set up of this thing is going to be to facilitate the building of one train directly after another.

Now at the moment we have the confidence that we will prove up the reserves for one train. However, as we go through the

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process towards the 2010 sanction we will not only be proving reserves sufficient to underpin both financing and gas sales contracts, but we will also learn much more about the Tupi prove plus probable reserves in these licences. And depending on how that develops we may take a decision to trigger the second train.

Now at present I think that we simply don't know enough but as we're drilling we're getting confident about train 1 clearly and we're going to learn a lot more about train 2. There is according to reports in Australia, of course quite a lot of gas down there and in the Queensland and New South Wales areas and it's in the hands of a diverse group of players, large and small. And the prospect, perhaps once we've got more of a view of our 2P, of topping up the second train with other people's gas - that's certainly a prospect which we are examining and all of this of course is quite independent of the process that we're in with Origin.

So I'm quite positive about the notion of a second train, we're preparing to build it in the most optimum manner. Whether the second train will follow sequentially that is a decision which we will take based on progress with reserves at a later date.

Does that get your point Lucas?

Lucas Herrmann,  
Deutsche Bank:

Yeah that's very kind thanks Frank.

Ashley Almanza:

On the LNG outlook Lucas, I think the short answer is we are increasingly confident. We've become increasingly confident for a number of reasons. First of all we now have a very substantial portfolio of contracted supply and that supply is being reliably delivered into our portfolio month in, month out. So we have something that I think is not easy to replicate. It's also low cost and flexible. The business of shipping and marketing is logistically quite complex and you need an operation and

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customer relationships and those two things to come together. We feel increasingly confident in our ability to deliver that piece of the operation and I would add we don't think it can be easily replicated.

And as to new supply I think that you know the new supply that you're referring to has been coming for some time. In other words it's been visible and reflected in our previous comments about the outlook for this business over a five to ten year horizon, and we remain positive with respect to that outlook. And history suggests that new supply in this business tends not to come on stream smoothly and that the commercial arrangements for those supply vary quite widely. So we're very comfortable with the contract supply for failure and our operational capability that we can compete in this market and continue to generate very strong returns.

Frank Chapman:

I think it is important to note that it's not a perfect market and it can't be sort of considered in the same way that the crude market could be considered. And as Ashley quite rightly points out not all of the new supply is equal. Some of it's going to be on board very large ships that can't go into most of the ports that are existing around the world. You know some contracts don't have the flexibility to move cargoes around. Pricing will affect quite significantly in our view the volume of new demand. You're dealing here with the law of two very large numbers, you're getting very high demand growth for a series of reasons, underlying as well as demand substitution supply substitution as older fields and supplies diminish and new ones come in to take their place. And you have all of these people sitting on the touchline waiting to step across at the right price level also to become LNG importers.

So it's a law of two large numbers and it's a complex equation. BG feels that you know with its very, very low cost structure and its marketing and logistical skills and its portfolio flexibility to be

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positioned as well as anybody and if not better than most to take advantage and optimise you know returns from these various market changes.

Lucas Herrmann,  
Deutsche Bank:

Can I ask one final question. Should I be worrying about the sabre rattling for want of a better phrase coming out of the Equatorial Guinea government re the levels of profit that they perceive that downstream players like yourselves are making from the LNG supplied by Marathon?

Frank Chapman:

Well of course you know in all these supply countries we have a variety of arrangements in terms of how we remunerate or how we pay for this gas and its relationship to ultimate realisations. And in every case Equatorial Guinea is no exception, we are sticking to the letter of the contract and the spirit of the contract. And so that's all I'm going to say. I've not heard any sabres rattling and you know we're sticking to the contract.

Iain Reid,  
Macquarie:

Good afternoon gentleman.

Frank Chapman:

Ian with your new hat on, good afternoon.

Iain Reid,  
Macquarie:

Yes indeed. Three questions please. You seem to be building up quite a large portfolio of contracted supply to the various areas which you've been detailing in the last couple of quarters. Are you taking a conscious decision to reduce the amount of flexibility in your portfolio or do you think that the build up of the underlying supply will offset that, and what sort of level of flexibility are you aiming at in the longer term?

Secondly a question about your unit opex. It's gone up pretty substantially this year. Could you say how much of that is royalty versus underlying cost inflation?

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And the third question is back in Brazil. In terms of how the government is going to deal with the open acreage there what's your sense of what the end game is there? Is there going to be an opportunity do you think for the private companies to participate or is it going to be a public company ownership there and how's that going to resolve itself with unitisation discussions etc. I know it's a little bit in the future but maybe you could give your views on how that's going to be resolved?

Frank Chapman: Well that's quite a lot of questions there, let me try and do Brazil first. I think the government is going to take its time in deciding how it deals with open acreage. I think that in my book I would not find it surprising at all if the government were not to simply put all of this open acreage issue to one side for the moment because clearly the acreage already licensed has got huge potential, more than enough to satisfy the needs of Brazil and render it a significant exporter for some time to come, and therefore for future generations the government may decide to simply place this to one side at this stage and that would not be in my view be a surprising outcome.

This is quite speculative, in the event that they do license it, how would it be licensed? I mean Petrobras of course at the moment is already quite busy and it depends on the government's view. If the government wants to see further work done on this acreage, and I've already just a moment ago expressed my view as to why it would be a good idea for them not to say that, but say they did then of course one of the things that would determine that is the extent to which they believed the incumbent national champion would actually be able to deploy further capital and further effort on even more of that acreage. So that's a sort of quite a speculative statement. Of course we're in the very fortunate position of not really having to worry about that because we have a star studded list of prospects there to date and we're extremely pleased with the material position we've got and we've got plenty to keep us busy for a while.

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In terms of unitisation, I've seen quite a lot written about that and now I've had a few discussions with our partners on this matter. My view here is that we have to stick to the old traditional rules about unitisation. If you think my prospect goes into your block prove it. Drill a well on the other side and show me what you've got. And I think that's you know the way I will be pursuing this and I'm sure that other companies who have been in this industry for a long time will be pursuing a similar can I call it rational approach to the unitisation process.

Ashley Almanza:

Ian on LNG I think it's important to note that this is not fixed in the sense that supply A is dedicated to destination B. We can supply these markets from any part of our portfolio. We can also supply the demand two to three times over from our existing portfolio. We don't have a fixed position in terms of whether we want to see that go up or down. We look at each one on a commercial basis.

In terms of underlying inflation in unit costs overwhelmingly this is price related, that is to say royalty and transportation tariffs with the price index, so our unit operating costs have gone up a dollar and six cents of which about 28 cents is lifting costs. So underlying inflation running at about 8%.

Neill Morton,  
MF Global:

Good afternoon. I actually had a question about Origin Energy if you're prepared to answer it. I mean to some extent I think you'll agree your bid for Origin has been hijacked by the ongoing debate about the size and the value of the coal bed methane reserves and yet around three quarters of the companies current cashflow comes from the downstream assets. I wonder if you could perhaps explain from the information you have available to you how you would intend to add more value to Origins downstream assets than the current management is able to.

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Frank Chapman: Well what we're looking at there is that the overall environment in Australia in terms of the growth expectation in all business segments, industrial, power generation and retail is set to grow. In particular, industrial demand and CCGT power plants that will be coming on, in our expectation, to replace some of the older less efficient coal plants, these areas will grow particularly strongly. But we're also expecting retail consumption to grow as well.

So this is a question of proving up reserves to underpin the existing investments as well as allow further domestic investments in what is a good quality OECD marketplace. Alongside of that, of course, our ambition is to expand on the existing Gladstone LNG project at such time that the domestic existing investments have been safeguarded in terms of reserves, and then to take our LNG arrangements in Gladstone one step further deeper into the future.

Ashley Almanza: That of course Neil will depend on the results of an exploration and appraisal programme. We can't predict the outcome of that. Our intention would be to invest in exploration appraisal. We've already commented that we regard Origin's coal seam gas position to be in large part virtually unappraised. So that would be our intention to prioritise that. But I would add to Frank's comments that our record in the downstream globally is one that indicates we are capable of adding value for our shareholders.

Neill Morton,

M F Global: Okay that's fine, just one very quick clarification. You've reiterated you know opex this year at \$6.25. What oil price is that assuming?

Ashley Almanza: That was based clearly on prices that we saw in February \$80/\$90. If current prices persisted we'd clearly see some increase.

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Frank Chapman, Chief Executive

Finally, I'd like to recap the main highlights:

- We delivered another strong financial performance for the quarter
- We doubled our earnings per share;
- We made significant progress in our expanded exploration programme, most notably in Brazil; but also in Algeria, Norway, Trinidad and Tobago, Thailand and the UK; and
- In our LNG business, we saw another excellent performance.

Thank you for taking part in the conference call today and I'd like to remind you that we'll be announcing our third quarter results on 4<sup>th</sup> November.

Goodbye.