

BG GROUP



BG Group

Third Quarter Results

2 November 2010

Introduction: Chris Lloyd, Head of Investor Relations

Good afternoon ladies and gentlemen and welcome to BG Group's third quarter results.

During the course of this conference call, Frank Chapman, Chief Executive, will take you through the quarter's key business highlights, and then Ashley Almanza, Chief Financial Officer, will look 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 morning, ladies and gentlemen.

You'll've seen from today's results statement and the announcements of the past days that we have, alongside a set of good results in the quarter, made excellent progress with our strategy and growth plans. I will take you through these key strategic highlights in a moment. But first let's have a look briefly at the results.

Total operating profit of more than 1 point 6 billion dollars was up 21% year-on-year, and earnings per share of 28 point 9 cents were up 27%.

In **Exploration and Production**, total operating profit was up by 7% during the quarter, reflecting higher realised oil, liquids and international gas prices.

In **LNG**, there was another strong performance for the quarter, with total operating profit up 43% to 725 million dollars.

And in **Transmission and Distribution**, total operating profit increased by 7% to 197 million dollars.

So overall, a good set of results in the quarter.

Let me now turn to the major strategic achievements, beginning with Brazil.

This morning we have announced a 2 point 7 billion barrels of oil equivalent upgrade to estimates of gross resources for the Tupi, Iracema, and Guar fields in the Santos Basin.

BG Group's new aggregate best estimate of economically recoverable gross resources for these

fields, amounts to 10 point 8 billion barrels oil equivalent. This represents a 34% increase to the previous indicative estimate of 8 point 1 billion boe.

BG Group's latest analysis is based on the development by the Group of new and significantly more sophisticated reservoir models. These have assimilated and interpreted substantial amounts of information, much of it new and gathered over the last year, from 3D seismic data, well results, drill stem tests and the Tupi extended well test.

BG Group engaged the oil and gas consulting firm Miller and Lents to provide expert independent verification of the estimates. Miller and Lents were provided with full access to BG Group's data and development models for these fields. They have certified their best estimate for gross resources to be 10 point 8 billion boe in aggregate.

BG Group's aggregate best estimate of its economically recoverable **net** resources on Tupi, Iracema and Guara now stands at 2 point 8 billion barrels oil equivalent. This is an upgrade in net resources of approximately 680 million boe.

Today's announcement represents a material enhancement to what was already a world-class resources position for BG Group, on fields which we expect to produce substantial shareholder value for many years to come.

And we have announced this very significant upgrade as the rapid commercialisation of our Santos Basin discoveries reaches a key milestone.

Just four years after our first discovery, we have now commissioned the first permanent FPSO facilities on the Tupi field. The FPSO is now onstream and is expected to produce up to 100 thousand barrels of oil per day. There are also further FPSO's being planned; contracts for two having already been awarded, and plans for further units are advancing. And we have installed the first gas evacuation infrastructure.

All of this underscores the tangible momentum behind these developments, in a play that is central to our growth plans over the next decade.

We also saw very significant developments in Australia during the quarter.

As you will know, BG Group has now taken the Final Investment Decision to approve the implementation of the first phase of the Queensland Curtis LNG project.

This represents the realisation of a pivotal strategic objective for BG Group – to further the globalisation of our LNG business by establishing a new and material source of equity LNG in the Asia-Pacific arena.

As in Brazil, this has been quite a journey. In early 2008, we announced our first investment in Australia. This week, less than three years later, we have announced our decision to develop the

world's first LNG plant to be supplied by coal seam gas – and the foundation project at the centre of a major new Australian export industry.

I believe that the speed of our transition from country entry, through major resource maturation to project sanction reinforces our reputation for advancing innovative and complex gas chain projects within challenging timeframes – as previously demonstrated in Trinidad and Tobago and in Egypt.

QCLNG is a world-class LNG project, anchored in customer agreements across the world's largest LNG markets. I look forward to updating you on our progress towards first production in 2014.

So, to summarise our key points:

- we have reported a good set of quarterly results;
- earnings per share were up 27% year-on-year to 28 point 9 cents;
- we have announced a 2 point 7 billion barrels of oil equivalent upgrade to estimates of gross resources for the Tupi, Iracema, and Guar fields in the Santos Basin;
- BG Group's net best estimate for these fields now stands at 2 point 8 billion barrels oil equivalent – an upgrade of approximately 680 million boe;
- we passed a key milestone in the rapid commercialisation of those resources as production begins on the first permanent facilities on Tupi; and
- we have realised a pivotal strategic objective for BG Group, with the sanction of QCLNG in Australia, where development and construction will now progress with immediate effect.

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

Ashley Almanza, Chief Financial Officer

Good afternoon ladies and gentlemen.

I'll start as usual with the E&P segment.

Revenues were 12% higher than the third quarter last year, reflecting higher realised oil, liquids and international gas prices.

Production volumes in the quarter were in line with 2009. Higher production from the USA and the Hasdrubal field in Tunisia was offset by the impact of the biennial shutdown at the Karachaganak field in Kazakhstan and the temporary cessation of production at the Panna/Mukta field in India. Production has resumed at Panna/Mukta.

E&P operating profit of \$761 million was up by 7%, with the increase in revenue and a lower exploration charge being partially offset by an adverse production mix, principally related to the loss of high value production in India and Kazakhstan.

Our overall average realised gas price increased by 16% in the third quarter. International gas realisations were 23% higher as a result of higher oil and Henry Hub market prices.

Our average realised gas price in the UK of 30.43 pence per produced therm was in line with 2009 and, consistent with my comments in the second quarter, this reflected the profile of our contracted sales and the limited gas we had available to sell on a spot basis. For the forthcoming UK gas year ending September 2011, we expect an average contract price of around 42 pence per therm to apply to approximately two thirds of our UK gas production.

Unit operating expenditure in the quarter was \$7.08 per barrel of oil equivalent, a 6% increase over last year which reflects the impact of higher commodity prices and maintenance activity. Our full year guidance remains \$7.25 per boe.

The exploration charge of \$133 million in the quarter was \$66 million lower than last year as a result of lower well write-offs. Our full year exploration charge is expected to be around \$850 million.

Our LNG business performed very strongly in the third quarter with total operating profits for the segment up 43% to \$725 million. Market conditions were very favourable for our shipping and marketing business as we saw lower Production from Qatar combined with strong weather related demand in South America and Asia. We therefore diverted additional cargoes to these high value markets.

Market conditions have now returned to a normal state and we would expect this to be reflected in fourth quarter results.

Turning now to Transmission and Distribution, total operating profit increased by 7% to \$197 million on the back of good revenue growth in Brazil and India.

Excluding the timing effect of gas cost recovery, total operating profit at Comgas increased by 10% as a result of higher volumes and the strong Brazilian Real. Comgas recovered \$67 million of past gas costs in the third quarter which was \$14 million higher than the third quarter last year. At the end of the quarter Comgas had a \$90 million net benefit to be passed back to customers in future periods.

Following the disposal of our power assets in the US and UK earlier in the year and the announcement of the sale of our interests in power assets in the Philippines in September, the majority of the businesses that comprised the Power segment have been classified as discontinued operations. Accordingly, the results of these assets have been presented separately as discontinued operations. The sale of our interests in the Santa Rita and San Lorenzo power stations in the Philippines for a net consideration of around \$400 million is expected to close in the first quarter of 2011.

For the Group as a whole, total operating profit of \$1.7 billion dollars was 21% higher than last year and earnings per share was 28.9 cents per share.

Net finance costs of \$123 million for the quarter included currency translation charges of \$58 million. The underlying run rate after adjusting for this currency effect provides a reasonable indication of the rate we expect for the remainder of the year.

Our effective tax rate for the quarter was 34% and this included a \$106 million credit in relation to the successful resolution of an open tax position. I expect the effective tax rate for the full year to be approximately 39%.

Cash generated by operations in the third quarter was \$1.7 billion compared with \$1.95 billion last year. Working capital absorbed \$384 million of cash during the quarter compared with an inflow of \$111 million in the third quarter last year. This is a temporary timing effect largely reflecting cut-off of receivables and payables in our LNG business. Capital investment in the quarter was \$2.1 billion and we ended the quarter with gearing of 19%. Our full year capex for 2010 is expected to be approximately \$9.1 billion including \$1.7 billion relating to our US Shale Gas acquisitions this year and our farm-in in Tanzania. We are updating our capex guidance for 2011 and 2012 following the sanction of our 8.5 million tonne QCLNG project. Our previous guidance for Group capex was \$16.5 billion over 2011 and 2012 combined and this is now being raised to \$18.5 billion over the same period.

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

Q&A Session

Theepan Jothilingam,
Morgan Stanley:

Afternoon gents. Couple of questions please. First, is just around E&P, I was wondering if you could help reconcile the E&P result particularly around the economic impact of the shutdowns, both planned and unplanned, and make comments on profitability given the mix of the portfolio going forward?

Second question just quickly on exploration. I know it's early days on Tanzania but I was wondering if you could remind us or give us a little bit more flavour on timing and also what type of materiality you're targeting there?

Ashley Almanza:

Theepan, maybe I can take the first part of the first question. I think implicit in your question there are two parts, what happened in the quarter and what does the outlook look like in E&P. Taking the first part of that, the shutdowns that I referred to were principally with Karachaganak. Every two years we have a major shutdown and this was the year for our biennial shutdown in Karachaganak, which cost us about 2.1 million barrels. And then we had separately, storm related damage to the SBM on Panna/Mukta in India and that cost us about 1.3 million barrels of production from Panna/Mukta which was

out for most of the quarter. The combined financial effect of that was around \$120 million.

There were some other effects on the cost side in the quarter which I would regard as not being long-term effects. These are, firstly, some FX movements on receivable balances and, as I mentioned in February, we've got some pre-production expenditure as we ramp-up in Brazil and Australia. So some of these effects will persist but I would say we've probably got 30 to 40 million of costs there which are non-long-term.

So just summing up, depending on how you regard the short-term effects, we've got about 150 to 170 million of lost revenue / loss of high value production and some additional costs in the quarter. Maybe Frank, you want to comment on the outlook?

Frank Chapman:

Theepan, of course if you stand back, our company does have a very strong resources and reserves base, one that's grown very strongly in recent years. And in fact one that continues to grow. These announcements that we've made in the last days are further evidence that we're growing the resource base, 700 million barrels announced today. And of course, you know in Australia we've gone from nil to 17.3 tcf of resources in less than three years. So there's plenty of evidence that our company is in good shape when it comes to its reserves and resources base.

Now of course translating those into tangible commercial ventures is the name of the game and we do see again with announcements that we have come with this week that we are making very good progress with our major projects. And this in turn is going to feed through into strong reserves replacement ratios.

So as these new projects, and there are a number of them that I can name, as they come onstream we do expect production to grow right through the decade, right out to 2020, in line with the profile that we presented to you at this year's strategy presentation in February. So overall, I want to emphasise I have no concerns whatsoever about our company's ability to grow the E&P business, to grow it substantially and to grow it profitably.

Tanzania - it's very early days, Theepan. But you know we have drilled our first well, it was a successful gas discovery so it proved one of the uncertainties - do we have here in this area a working hydrocarbon system, that we have demonstrated. The well also

encountered, both at the discovery horizon and below it, some high quality gas-bearing or high quality reservoir sands. And we've moved over now to a second well which was spudded yesterday I believe or the day before yesterday, and we'll complete that well and then move further to the south where we'll drill a third well probably by the end of this year, the first weeks in 2011.

We're also shooting an extensive 3D seismic programme and when we've got all that data, we'll have a better picture. But an encouraging start to things there, a substantial acreage position 27,500 square kilometres, about 128 UK standard blocks. So a material acreage position but it takes more than one swallow to make a summer and we're pleased with the result, but we have to make some more progress and see what else we can turn up, but a reasonable start.

Fred Lucas,
JP Morgan Cazenove:

Got a couple of questions please. The studies that you've just completed on Tupi, Iracema and Guar, are you doing any equivalent technical studies on your other discoveries, Carioca, Iguaçu, Corcovado to name a few? And if you are, when might they conclude and if you're not, why not?

And the second question relates to developments at EXCO Resources. If the bid that's been tabled by the CEO goes through and that entity becomes private and highly leveraged, how is that likely to affect rates of reinvestment through your joint ventures? And secondly do you have put/call triggers on those JVs if there's a change of control? Thanks.

Frank Chapman:

What we're in the process of doing right now in Brazil is to turn indicative ranges and indicative estimates into much more concrete analysis, much more concrete reserves and resources assessments that give a P90, mid, best estimate and P10 range. And we've done that and we've seen already that relative to our 3 billion barrels of oil equivalent of estimated resources in the area, just from these three fields alone we've already got a best estimate case of 2.8. So that's very good news.

What we're going to do, and programmes are constantly evolving, is we need to do further appraisal work on all of the other discoveries. So if I take Iara, Carioca, Abar West, Iguaçu, Parati, and of course you have alongside that further exploration work to do, but the discoveries that we've made we have in place certain plans. We will evolve those plans further and our task really is to nail down exactly

what the resource ranges are for each and every one of these discoveries so that we can get a much better handle. So that work is in hand and it will be a progressive process. I don't see all of this unfolding in one go. We're now into a sort of progressive process for each and every one of those discoveries that we will pursue and disclose information as that work is completed.

So that's the situation in Brazil. You know we're delighted at the proprietary work that our company has done on these resources. Just to give you some insight in the sag, we previously were working with 600 metre by 600 metre dimensioned elements. And we're now working with 30 metres by 30 metres elements so we had something like a 400 fold increase in the level of detail of analysis in the reservoir modelling. So that's why all of this has taken a long time to build these very sophisticated models which give us much greater insight into the performance of the reservoir. So that's the sort of work that we want to do. It's BG proprietary work and that's the sort of work that we want to do on these other discoveries too.

Now as far as EXCO is concerned, we're aware of the proposal. We of course know Doug Miller very well. Essentially, this is a matter for the EXCO board and their Chief Executive. We are not participating in this process however, you know it does provide an indication of the value implicit in these businesses and in the joint ventures we share. We, of course, are having a fairly detailed programme with EXCO, as to the development of existing licenses and the growing out of the JV acreage portfolio. And we are comfortable that EXCO remains very committed to that programme and is not going to become leveraged to the point where it will not be able to deliver on its commitments with BG for the development of our opportunities.

Fred Lucas,
JP Morgan Cazenove:

Do you have a put and call right under a change of control, Frank?

Frank Chapman:

On the pre-emption piece, Fred, we don't comment on our contractual rights in the joint venture.

Hootan Yazhari,
BoA Merrill Lynch:

Afternoon gentlemen. A couple of questions. Let's just continue on Brazil. It seems like you've had much better data coming through and undoubtedly some of that would have come from the extended well test at the Tupi well. As you start conducting more and more extended well tests across the Tupi Iracema complex is there scope for you to delineate further and come up with updated reserve

estimates as you did this morning, or is this very much the top end of what you expect from this field now?

And the second question I have for LNG is, you know you've had a very strong first three quarters in that business and you indicated that you're going to come up to the top end of your guided range for 2010. Does that still stand or are you offering new guidance on that? Thank you.

Frank Chapman:

On Brazil, look we've done the analysis. We've done a great deal of detailed analysis. We've got a range, we've got a best estimate and we've got a P90 and we've got a P10. And you know that's such a significant change to what we had previously that we've gone to the extent of having that independently certified by Miller and Lents. So today, the figures that we put into the market do represent our best estimate.

Is there potential for more in Tupi, Iracema, Guar? Well the figures speak for themselves. You have on the sheet that we sent out this morning in the news release what we believe the P10 number is and what we believe the P90 number is, so that will give you a feel for our calculated evaluated range of possible outcomes. And of course, as we get more information on the field and get more production history, that range will narrow.

Of course, what we have to go on and do is, as I mentioned earlier, Iara, Carioca, Iguaçu, Abar West, Parati, other things that we hope we can discover, we have to do the same process and then you'll have a full suite of P90s to P10s and you will make your own call on where you think the outcome will be in that range. But what we've given you today is really the best work we can do.

Ashley Almanza:

Hootan, on your second question, we had a very strong third quarter for the reasons I mentioned, lower production out of Qatar and unseasonally strong demand in Asia and South America. Year to date, we're running at about \$1.9 billion for the segment so it looks as though we'll exceed the top end of our guidance. I think if you were trying to get a read on the full year I would steer you towards the results statement and you can see that in the third quarter, if you compare it to last year's third quarter which I would regard as a sort of median result, then we've probably had about \$200 million of out-performance in the quarter. Last year we were at just over 450, 476. That's a normal quarter. So you can do the arithmetic and come up with your own forecasts.

We're not revising guidance, we give guidance once a year and I think what we're saying is trading conditions in the market have returned to normal, we don't see the unusually strong conditions that we saw in the third quarter persisting in the fourth quarter.

Jon Rigby, UBS:

Thanks. Two questions, first on Brazil. You talked about quantities as you're starting to get a lot more experience of the basin. Can you make any comments about what you're thinking about costs and just the process of exploitation in the Santos?

The second is just to pick up on a word, I'm sure you used this deliberately but you talked about QCLNG as a foundation project and I think we've had discussions before about whether BG as a first mover then starts to become a consolidator of activity in the region. Was that the intention behind the use of that word or am I reading too much into it? Thanks.

Frank Chapman:

QCLNG foundation project, I mean it is a foundation project for the industry, that was really the intention of using that phrase. Although of course, once you get a big piece of infrastructure like this away, one is always looking for the optimisations around that and I believe those opportunities are many although we are not working on anything specific at the moment aside from the expansion of phase one - with Train 3.

You know we're making good progress with resources, we're out in the market marketing further volumes and our primary objective right now is to bring that forward as soon as we can. And you know it may be that some of the feed-stock for Train 3 is third-party gas - I don't know, there are various possibilities. But in terms of large scale, you know putting two big projects together; we're not working on anything like that at the moment. We've got all the resources we need, we've got the customer base we need, we've got the financial firepower we need and we know what we're doing. So I think that formula has worked really quite well for us to date and we intend to plough our own furrow, certainly for a while in getting this all away.

On Brazil, today was really about reserves and I really wanted to focus on reserves. We're starting to get these FPSOs away. I think as we work round to February we'll be in a position then to have a more detailed look at some of the costs that go with this, you know much of the cost base actually is already available in one form or another in the market but we will be able to give you a better picture. Today,

we've come out with reserves and resources because we basically disclosed that data as soon as we had completed the work and it had been certified by Miller and Lents. So that's the picture there. You know I look forward to advancing that discussion with you a bit next February.

Jon Rigby, UBS: On QCLNG again, just a follow up on that. Is there a window around which you'll get the most optimised cost for Train 3 in terms of FIDing it, you know so that you can roll activity out of the first two trains into the third train and get the maximum cost benefit?

Frank Chapman: Ideally, you would do all of these trains. If you're going to have five trains you'd never demobilise the construction team, you'd roll them on from one to the other. That would be the optimal way to do it. But life isn't always like that and sometimes you incur demobilisation and remobilisation costs if I can put it that way, because you're not ready with market or you're not ready with reserves.

So we will be working hard on our exploration, we're drilling about 40 wells this year in the Bowen Basin, looking at further resource opportunities, and you know as I said earlier we're working with market. So we'll see how we get on but we have already an environmental permit for the third train and therefore it will enjoy quite some benefits from leveraging off of all of the work that we've done to get to the sanction that we announced over the weekend.

Ashley Almanza: We have got time in hand though...

Frank Chapman: Yeah we've got time in hand.

Ashley Almanza: Yeah, that's key.

Paul Spedding, HSBC: Afternoon. Couple of questions please. Firstly curious as to why you've chosen to announce the reserve data today rather than wait for the strategy presentation which is your normal period of releasing such information. And the second question is whether you've got any update on the likely number of FPSOs you might now use on the Tupi complex as a whole? The point of the second question, obviously being whether the reserve additions or resource additions will end up as late life production or whether you might be able to achieve a higher peak production profile.

Frank Chapman: On the reserves, I think I've been pretty clear at various points throughout this year that we have been doing this work and that we

expected to bring this work to completion around about the end of the year. Now that work has actually advanced very well and we finished a bit earlier.

Once we got the results and saw that there was a material increase in our assessment of reserves and resources of course it was our duty to bring that to the market. Of course we took the decision that given the materiality of the potential increases, we took the decision to have this independently certified so that we had increased confidence that we were steering the market in the right direction. And once that certification was complete we have announced immediately. So it would have been inappropriate to try to, and improper in fact, to try to keep such a material disclosure away from the market for six months, four months anyway. So that's the position there.

FPSOs, of course what we're trying to do here is we're trying to get all these resources out in the licence period. And if you get more resources and you've got the same length licence period that implies a higher production profile so that's your answer. Precisely how many FPSOs, that of course needs to be matured, field development plans need to be agreed between joint venture partners and that's a process that we'll be working on you know in the coming weeks, months, years as we develop the various phases of this development.

Oswald Clint,
Sanford Bernstein:

Thank you. Two questions again please. First just back on QCLNG, I wonder if you could guide or say whether there's been any material change to the profitability index chart that you presented back in February, just given the tax changes and the capex number that you published yesterday with that project?

And then secondly, just with respect to some of your domestic natural gas volumes and sales, obviously you talked earlier in the year about those markets being a little bit weaker, I wonder if you could touch on how they've been performing through this year and maybe how you might expect them to perform through next year? I'm just thinking about markets like domestic Trinidad, domestic Egypt, India; you know those types of markets. Thank you.

Ashley Almanza:

Okay. So we said at the beginning of the year that we expected some of the weakness that was observed in 2010 to carry forward into 2011 and that we would see a mixed picture in terms of recovery in individual markets. I think we continue to see not very strong demand

out of Russia for near-term Kazakhstan gas. Will that improve? Too soon to say.

In India, demand has been fine. In fact, our distribution businesses have been doing quite well, so we see the recovery there developing quite well. In Brazil, same story really, the recovery now looks to be underway and we see Comgás starting to recover some of the volumes which were lost a year, 18 months ago. Trinidad, nothing really to report, I think the picture remains as we set it out at the beginning of the year. No strong recovery at the moment. I think those are the principle markets that we've commented on before.

Frank Chapman:

Now I'm quite interested that you're showing a great deal of interest in our P over I charts, Oswald. They haven't really met with a round of applause from the market in general and people haven't really welcomed any discussion around them at all. So what we've been planning to do as we've got more cost data is actually to move away from these charts. They appear to us to have caused more confusion than anything else.

And with development plans now in place and some of the major contracts being awarded it is our intention to provide more capex details to enable you to build your own models for this. What I will say about QCLNG is that the costs that we've now put out, \$15 billion up to 2014, is a pretty good cost base based upon a combination of awarded contracts, some of the major contracts that have now been awarded, and detailed estimates of a series of contracts that are still to be let.

What I can say to you about the costs on a comparative basis is that we believe that the costs are competitive. We believe that the upstream unit costs are within top quartile for the industry and you'll see when we eventually disclose this figure to you, we're keeping this as commercially sensitive information at the moment, when we do disclose it to you, you will see a competitive plant cost. And for this moment, given the status of where others are with the developments of their schemes we have taken the decision to say no more about you know the details of our cost base and our profitability. We will gladly share that with you at the appropriate juncture.

Lucy Haskins,
Barclays Capital:

Hi good afternoon. Two questions please. One a little bit of a follow on from the question on QGC in the sense that you talked about the inadequacy perhaps of myself and others to pick up on the steers

you've been giving us in terms of the value of some of your development prospects. I wondered with Brazil, you know particularly as you've now got an independent sort of estimate of where resources are on some of the projects there, would you be prepared to go down the same steps as Repsol has done in terms of realising some of that value to an industrial third-party if you don't think equity markets are appropriately reflecting the value of those prospects?

And the second question was a bit more prosaic, which is there's been quite a large movement in DD&A in the upstream and I just wondered if Ashley, perhaps you could give us some guidance on the evolution of that line?

Frank Chapman:

Well, we have no plans to sell down or to do a partial float as Repsol have done. We believe right now we need to absolutely understand the value that we've got implicit in these assets and our job right now is to demonstrate the value of those assets to the market. You know our intention is to add shareholder value through continued ownership of the full exposure that we have today.

Ashley Almanza:

Lucy on DD&A, this is something that we touched on in February and I think the general theme, not exclusive to BG of course, is that as new phases of projects are brought onstream and new projects are brought onstream they are being built in the new cost environment. So there is an increase in DD&A. I think over a 12 month period it's about \$1.30 a barrel across the portfolio and you know I think where that goes from here is clearly a function of the cost environment.

And what we've seen across certainly the industry as we see it is that the rapid rates of inflation that were evident two, three years on the trot have abated quite substantially. So a much lower rate of cost increase and in some cases flat and in fewer cases some cost de-escalation. So I don't think we'll continue to see capital or unit capital costs escalate in the way that we saw them in the last two to three years, but clearly what we're seeing in the portfolio now is the effect that I alluded to in February which is new plant rolling through into the DD&A rate.

Kim Fustier, Credit Suisse:

Hi good afternoon gentlemen. I have two questions if I could. Firstly if you could give us a quick update on your EXCO JV. I know it's early days but I was wondering if you could give us a feel for production out of the Marcellus for the next few years. And secondly just coming back to the capex guidance for 2011/2012, it's increased by \$2 billion.

Was wondering if you could confirm if this is entirely linked to higher capex at QCLNG or if some of this is coming from Brazil? Thank you.

Ashley Almanza: I can take the second question first, it's QCLNG, the increase is due to QCLNG to be clear.

Frank Chapman: EXCO progress, I mean we are making very good progress. We have increased substantially the number of rigs operating there. Principally, the activity at the moment is in the Haynesville and we're not doing more than drilling a relatively modest number of exploration wells presently in the Marcellus. So when we came out with our estimate of about 100,000 barrels oil equivalent per day by 2015, that was at last year's strategy presentation, that was principally coming from the Haynesville. Since that time we've doubled our acreage position in the core area of the Haynesville and of course we've made the Southwest and the Common Resources acquisitions, and of course taken it further with the Marcellus.

So we are due to give you in February an update of our business plan going forward, now accounting for the much more significant, double the exposure to the core area in Haynesville and these other areas which I mention. But presently we're producing around about 400 million standard cubic feet a day and you know drilling is going ahead at a good rate of knots.

Jason Kenney, ING: Hi there. I'm going back to Brazil and if I've done my math correctly your life of licence P90 resources for BG in the three assets total around 2.0 billion barrels versus the life of field 2.8 billion barrels. I just wondered if you could confirm ...

Frank Chapman: That's not correct.

Jason Kenney, ING: No?

Frank Chapman: No. I mean what we're saying is that Guará will produce about 90%, yeah, of its resource.

Jason Kenney, ING: Within the licence term.

Frank Chapman: Within the licence term. This is preliminary work on the field development. You know there's one thing is your resource determination and the other thing is the field development plan and at present we've got 94% for the larger part of the reserves, 94%

recovery for Iracema and Tupi taken combined. So I haven't done the arithmetic but I would get to a number that's bigger than two.

Jason Kenney, ING: Well I'm using the P90 gross resource figures because that's how it is phrased in the press release.

Frank Chapman: There's a misunderstanding here. If you take the BG best estimate resources of 2.78 billion barrels oil equivalent net then what we're saying is that in Guar you know for that proportion of 2.78 which is 0.53 we expect to get 90% of that out, and of the 2.25 we expect to get 94% of that out okay. So that would be your best estimate recovery in the licence period.

Now I do want to emphasise here that we believe through further optimisation it's possible to improve still further on the degree of recovery that's achieved in the 27 year licence period. It's quite a decent length licence and we believe that we can actually do better than that but these are the figures that we've given today because those are the ones that fall out of this detailed reservoir analysis but still fairly preliminary BG field development scenario, field development plans.

Jason Kenney, ING: Okay. Regardless of the exact number, I'm assuming that you are confirming that these are all in licence volumes that have been estimated and it doesn't include reserves that might be outside of the concession boundaries.

Frank Chapman: No, no, definitely not outside the concession boundaries, absolutely.

Jason Kenney, ING: Yeah so there's potentially more to come if you were involved in the unitisation of expanded resource outside of those licences.

Frank Chapman: I'm not speculating on that today, I'm simply saying things that we own today through our concessions, these are what our estimates for the numbers. And you know our estimate based on preliminary BG Group development plans lead to X and Y in terms of recovered during the concession period. And I think that we can do better than that.

Jason Kenney, ING: Can I just ask the actual point of my question which was really what can we translate into SEC proved reserves based on the numbers that you've detailed today? I mean obviously you've got one FPSO on Tupi, is that going to be where the proved reserves are calculated just from the recovery for that one FPSO? Or are you saying that the P90

figures should be akin to a life of licence estimate under SEC guidance?

Frank Chapman:

We don't use SEC, we're using SPE guidelines and if I may refer you to our annual report which gives a series of definitions in there and indeed the SPE guidelines themselves, you know you'll get your answer.

I think one of the clues that you can get just to be a little more helpful if I can is that taking Guará the mid case resources there gross are, you know from Miller and Lents 1.62 and from BG 1.75. That 1.75 billion boe are produced through two FPSOs. So that will give you an idea of what we believe these reservoirs are capable of delivering through a single FPSO and that will give you an idea of thinking about phasing some infill drilling over the years, what the sort of production profile and booking profile might look like given that it's not uncommon to book 60% or so of your estimated reserves at project sanction. I hope that's helpful.

Jason Kenney, ING:

It is, it's very helpful and I mean either way it's pretty impressive kind of volumes.

Frank Chapman:

They're big numbers and do you know one of the problems our company does not have is finding resources. You know we're a good company at that area and we never promised that our path would be linear in terms of E&P production growth. In fact, we've said quite specifically on a number of occasions that it will not be linear. But the resources are coming through. We have a very substantial resource base. We're commercialising those resources. We do not have a resource and reserves replacement issue. What we do have is a very good powerful feed stock to drive the growth trajectory that we've you know set up in fact in 2005. You know it's a point I want to emphasise, we haven't changed our targets in E&P for five years. We're still sticking to those and we're determined to deliver on them.

Jason Kenney, ING:

Okay positive stuff. Is it too early to ask you for a 2011 production guidance?

Ashley Almanza:

It is too early I'm afraid. I think we've got quite a lot of news today and you're going to have to hold on. I think what we said in February remains the best guidance and appropriate guidance. So if you look at our February strategy presentation, there's a production profile out there and in broad terms what it shows is that production begins to ramp up again in 2011 and then we really get back into very strong

rates of growth 2012 forward. So that profile we'll give you an update on in February.

Simon Hawkins,
Ambrian:

Afternoon Frank and Ashley. Just a couple of questions kind of a little bit like what we've just been talking about. I think given the significant resource upgrade announced today and the speed you're able to go from discovery to production, do you see scope for potentially upgrading your growth targets, the 6% to 8% growth to 2020, or is this already in the numbers? That was number one.

Number two, really just going back to Theeepan's question at the beginning on Tanzania. In terms of the markets you see most suitable to connect to gas found there, I wonder whether you could give a little bit of colour on that as well as how much gas you would need to find to make Tanzania work? Thank you.

Frank Chapman:

We've done loads I think in the last quarter, we've got lots of good news and we're very upbeat about the progress our company is making. I'm not going to go further than that and start to give upgrades to our already five year long standing 6% to 8% growth trajectory or range. So I won't be doing that today Simon. We will be happy to talk more about that next February. So sorry to disappoint on that.

To get an average of 6% to 8% if you've been under the average for a couple of years as we said we would be, you know a period of consolidation, then obviously later on you have to go a little bit faster but you can see that from last February's curve, you can pick those numbers off of there and see that actually as we go out in the middle of this period the growth rates are quite significantly higher.

As regards Tanzania, the reason that we're on the east coast of Africa is it's not the west coast of Africa and at the moment of course, and we've known for some time that the west coast of Africa facing some of these markets such as the US where shale gas is obviously changing the complexion of the LNG proposition, you know we decided some time ago to work hard focusing on east Africa because of its viability for gas projects aimed at Asia and Asia Pacific. So that was the logic for going there.

We're not on the east coast of Africa by pure chance, it is for that specific reason and we have to find a reasonable amount of gas. And you know we'll see what we do. I don't want to start putting any

speculation out there about the level of gas that we might find and that we might need, we've just drilled a single well. So you know, give us a bit of time and we'll give you more information. But the reason, the logic for being on the east coast is clear.

Gordon Gray,
Collins Stewart:

Thanks very much. Talking about the east and west coasts of Africa, there's been comment from a couple of companies recently that indicate that Brass LNG seems to be gathering momentum again. Can you just comment whether you still intend to take LNG from that project and whether you're seeing any progress in negotiations? Thanks.

Frank Chapman:

Clearly our overall LNG strategy is one of a global business and you know we will trade, buy, sell, manufacture LNG to feed that global business. For the moment I think we're a little way off of understanding fully what the new programme is for Brass and therefore please excuse me if I don't comment further until it's appropriate to do so. But at this stage, I think the rejuvenation of some of these projects is in an early stage and I'm not in a position to give you any more further information regrettably, Gordon.

Frank Chapman:

Okay well thank you very much for your questions and for focusing largely on the important news of the day. If I may, I would like to just recap the main highlights, a good set of quarterly results, an upgrade of 680 billion barrels to our net resources in Brazil. The achievement of this pivotal strategic objective with the sanction of QCLNG where we'll start immediately with the building the development and construction of the facilities there.

So once again, on what has been at the end of a very active and busy period for BG, thank you for taking part in our conference call today. And I would like to remind you that we will be presenting our full year results together with our annual strategy update on the 8th of February in the coming year 2011. So thank you once again and goodbye.