

BG GROUP



BG Group

2011 Second Quarter Results

26 July 2011

Introduction: Chris Lloyd

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

During the course of this conference call, our Chief Executive Sir Frank Chapman and our Chief Financial Officer Fabio Barbosa will take you through the quarter's key business highlights, then Sir Frank and Fabio will take your questions.

During the call, we'll be focusing on our Business Performance results as highlighted in our results Statement. We'll 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 BG Group's Annual Report and Accounts for 2010.

Thank you, and now over to Sir Frank.

Sir Frank Chapman

Good afternoon ladies and gentlemen.

You'll have seen our results statement by now and I am pleased to report that we have made good progress in delivering our growth plans across the global portfolio. I will take you through the key developments now before handing over to Fabio to take us through the financials in more detail.

I'll start with **Brazil**, where we recently announced a material reserves and resources upgrade across our pre-salt Santos Basin interests. Mean total reserves and resources are now estimated at some 6 billion barrels of oil equivalent net to BG Group, with an upside potential of 8 billion boe net. Most notably, 95 percent of this total is accounted for in the Lula, Guar, Cernambi, Iara and Carioca fields.

Importantly, we expect virtually all of this resource to be recovered using the same surface facilities we envisaged in our field development plans prior to the resource upgrade. This means we expect a substantially higher unit value for the incremental resources announced in June, resulting in significant unit cost reductions and higher unit value for the increased total resources base.

The major upgrade doubled our previous best estimate of 3 billion boe net given in February 2010 and was based upon a wealth of drilling, appraisal, testing and other new data – not least, dynamic data

gathered from producing almost 16 million barrels of oil from the extended well tests on Guar, Lula Sul, Lula Northeast and from the first permanent FPSO on Lula.

This data has shown much higher well deliverability and greater reservoir connectivity which will allow increased recovery per well. Accordingly, we now expect an earlier ramp-up to plateau production from fewer wells.

The doubling of recovery from 3 to 6 billion boe over the same 27-year licence period will be achieved by a combination of firstly, more rapid build-up to plateau - as fewer wells are required to reach FPSO capacity; secondly, higher utilisation and de-bottlenecking of the aggregate installed FPSO capacity - meaning higher aggregate plateau production; and thirdly, more sustained production performance - meaning wells are expected to flow at higher rates for longer.

In addition to this improved performance, we have also seen significant improvement on unit cost expectations.

Our experience with FPSO tendering, construction and operation coupled with a substantial improvement in drilling performance gives us greater confidence in achieving further reductions in costs over future phases.

As stated earlier, and as a consequence of all this new information and experience, we expect a substantially higher unit value for the incremental resources announced in June, resulting in significant unit cost reductions and higher unit value for the increased total resources base.

And the significant progress being made in Brazil is mirrored elsewhere across the portfolio.

In **Australia**, momentum continues with \$1.8 billion dollars invested in the first half of this year and we now have over 3,500 people deployed across the operations.

The progress made includes the completion of site preparation works and casting of first structural concrete at the LNG site; all 540 kilometres of the 42 inch pipe have been delivered; and, the first stage projects for water treatment facilities have been completed. The extensive flooding experienced in Queensland earlier this year has impacted upstream drilling progress, however we have a recovery

plan in place, including amongst other things the mobilisation of an additional 12 drilling rigs, and plans for the first LNG in 2014 are unchanged.

In the **US**, development progress continued and the 200th operated horizontal well in the Haynesville was drilled and brought into production.

Elsewhere -

We assumed operatorship for Blocks 1, 3 and 4 offshore **Tanzania** in readiness for the next stage of exploration and appraisal work scheduled for later this year, and in **Kenya** we signed Production Sharing Contracts for two new exploration blocks where BG Group will also be operator.

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

Fabio Barbosa, Chief Financial Officer

Thank you Frank; and good afternoon ladies and gentlemen.

I'll start as usual with the E&P segment. Unless otherwise indicated, all of my comments relate to the second quarter rather than the half-year.

Revenues increased 35% in the quarter to \$2.8 billion dollars. This reflects the benefits of a 3% increase in production volumes and higher commodity prices.

E&P total operating profit of \$1.4 billion dollars was 90% higher than last year as a result of the increase in revenues combined with a lower exploration charge.

Higher production volumes in the quarter were principally driven by the production build-up in the United States, Brazil and at Hasdrubal in Tunisia. Whilst there continued to be sporadic disruption from social unrest in Egypt and Tunisia, this had a relatively small impact on production in the second quarter. In the UK North Sea, the Everest, Lomond and Erskine fields progressively returned to production following the shut down in the first quarter and further progress was made on Buzzard, which we expect to return to full capacity during the third quarter. Also during the third quarter we will be carrying out

planned maintenance on a number of platforms including Armada; as part of this shut down we intend to complete the tie-in of North West Seymour and Gaupe.

We continue to expect modest production growth for the Group in 2011, ahead of the strong ramp-up in volumes from 2012 through to 2020.

Our results also reflected the strong market fundamentals. BG's average realised gas price increased by 23% year-on-year to 42.8 cents per produced therm, showing the effects of higher market prices, together with favourable changes in the production mix. By the same token, our average realised oil and liquid prices increased by 55% and 48%, respectively.

Unit operating expenditure rose to \$8.93 per barrel of oil equivalent. The increase compared to last year reflects the impact of higher commodity prices on both tariff and royalty costs, adverse foreign exchange movements and changes in the production mix, including higher than portfolio average costs associated with the production start-up activities in Brazil.

As I mentioned in the first quarter, at an oil price of around \$100 dollars per barrel we would expect operating costs for the full year to be between \$8.50 cents and \$9.00 dollars per barrel of oil equivalent.

The exploration charge of \$120 million dollars in the quarter was \$246 million dollars lower than last year as a result of lower well write-offs. As before, we expect our gross exploration expenditure for the full year to be around \$1.4 billion dollars, excluding acquisitions, with around half of this being expensed.

In our LNG segment total operating profit for the second quarter was \$553 million dollars, 2% higher than last year. This result was ahead of our expectations due to a change in the phasing of trade for the year. Shipping and marketing operating profit was 3% higher at \$494 million dollars, reflecting an increased number of global diversions.

During the quarter we diverted 84% of our LNG cargoes to global markets outside of United States, compared with 60% in 2010. Our share of operating profit from liquefaction activities in the second quarter of \$81 million dollars was in line with last year.

For the LNG segment as a whole we continue to expect 2011 operating profit for the full year to be at the upper end of the \$1.9 billion to \$2.2 billion dollars range as previously announced.

Turning now to Transmission and Distribution: Revenues were up 18% in the second quarter, reflecting a 3% increase in volumes and favourable foreign exchange movements at Comgas in Brazil, combined with higher prices at Gujarat Gas in India. However, total operating profit in the same period fell by 9% to \$167 million dollars.

This was a result of the timing effect of gas cost recovery in Comgas where \$44 million dollars were passed back to customers in the quarter, compared with a net recovery of gas costs of \$28 million dollars in the second quarter of 2010. The closing balance to be passed back to customers at the end of the quarter was \$78 million dollars; we now expect substantially all of this to be passed back by the end of 2011. Excluding this timing effect, total operating profit at Comgas increased by 29%, reflecting favourable sales mix, foreign exchange movements and improving demand, predominantly in the industrial segment.

For the Group as a whole, operating profit of \$2.2 billion dollars was 43% higher than last year. Earnings per share increased by 27% to 33.1 cents per share, reflecting the increase in operating profit, partly offset by higher finance costs and a higher effective tax rate.

Net finance costs for the quarter amounted to \$59 million dollars, and for the full year they are expected to be around \$260 million dollars excluding the impact of foreign exchange movements.

In line with my comments in May, the Group's underlying effective tax rate for the full year, excluding the \$195 million dollar one-off charge recognised in the first quarter, is expected to be around 45%. The increase over last year is primarily a result of change in the UK North Sea taxation announced in March. We expect the Group's effective tax rate to be around 43% to 44% in the near term and trend downwards thereafter as more of the Group's profits are generated from outside the UK North Sea.

Cash generated by operations in the second quarter increased by 11% to \$2.6 billion dollars as a result of higher profits and, as anticipated, the partial reversal of prior period margin calls on the Group's hedged LNG contracts. The cash outflow associated with the remaining margin calls will reverse in future periods as the underlying LNG contracts settle.

As you are aware, the Group is undertaking an extensive investment programme to deliver its growth. Capital investment in the quarter of \$2.5 billion dollars included acquisitions of \$113 million dollars related to the purchase of further shale gas acreage in the United States. After adjusting for \$1.2 billion dollars of acquisition costs in the same period last year, our organic investment increased by 58%, with spend focussed on the Group's major growth projects in Australia, Brazil and the United States. At reference conditions, our expected full-year capital investment remains at around \$10 billion dollars.

We ended the quarter with cash of \$2.2 billion dollars. Our net debt was \$9.5 billion dollars with an average maturity of around 8 years and the gearing ratio was 24%. During the second quarter the Group signed a cooperation agreement with Bank of China that enhances the existing close working relationship between the two organisations and also allows for up to \$1.5 billion dollars of new funding alternatives. In addition, the Group's committed facilities, which remain undrawn, have been increased to \$5.5 billion dollars with extended maturities of between 2012 and 2016.

Reflecting the Group's financial performance and in line with our established policy, the Board has approved an interim dividend of 10.8 cents per share, which is half of the 2010 full year dividend. As previously announced the dividend will be paid in sterling, using the average exchange rate over the past 3 days. This will amount to 6.63 pence per share.

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

Thank you Fabio, and we are now happy to take your questions. Please could you state your name and company when asking a question. Thank you.

Paul Spedding, HSBC:

Afternoon gentlemen, it was a quick question on what you feel you can do to get an increased output from the existing Brazilian FPSO fleet that's on order, you were talking about de-bottlenecking. I just wondered if you could give us a feel for what you might be able to increase the capacity to the FPSOs by through improved efficiencies and de-bottlenecking?

Sir Frank Chapman:

Yes Paul, good afternoon. De-bottlenecking, I couldn't give you an a firm number on this, but what I could say is that it is not untypical to achieve more than 10% additional throughput and in

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some cases as much as 20%. If you looked across our portfolio today I think it would be fair to say we've certainly managed to achieve figures in that range from more mature facilities.

You don't of course get this on day one, this does come after a number of years and you have to then really identify which of the streams, is it water, it is gas, it is CO2 separation, it is oil, where in the production process the bottleneck exists. But making some assumption about additional throughput from de-bottlenecking would be appropriate given the fact that this is quite normal to achieve de-bottlenecking.

Paul Spedding, HSBC:

Okay, thanks very much.

Michael Alford, Citi:

Good afternoon, I've got two questions please. Firstly obviously there's been a lot of disruption in the UK business due to unplanned maintenance. Could you maybe give an indication, post the upgrade on Buzzard, what the sort of overall total production capacity would be in the UK business going forwards?

And the second question is, just around Brazil and clearly some positive comments around the unit costs for the business going forwards. Could you maybe give a bit more colour as to how you've got comfortable around the delivery risk and the execution risk from the local service contractors and what contingencies you may have in place to maybe mitigate those risks? Thank you.

Sir Frank Chapman:

Michael, thank you for your questions. In terms of disruption to the business of course that has been an issue for us in the first quarter particularly. As we've said in the release the Everest, Lomond and Erskine fields have progressively returned to production this quarter. We've got some further work to do on Armada, particularly in relation to tie-ins in the third quarter and some more maintenance to do. But we should see all of our

facilities back up to producing their maximum capacity as constrained by well deliverability in most cases, in the case of Buzzard it's facilities capacity, as we move through the third quarter.

I'm not going to give you a specific number for the UK, suffice it to say that overall production, as we've said for the year, we expect there to be a modest growth in production this year before we start to see a succession of new projects coming onstream.

I think that most of you will be aware that we've got quite major work going on, partly from these things that are returning to production in the UK, major work going on in West Delta Deep Egypt, with phases 7 and 8A which are going to drive increased production. We've got the US ramp up which you've seen evidence of in this quarter's results. We're going to see a full year from Lula at an increased production level as new wells come in. We will have Jasmine coming onstream at the end of next year. We've got Bongkot South which is making good progress and new production facilities in Bolivia.

So there's quite a range of things to set alongside the return to, let me say, more normal operating conditions in the UK. And this suite of changes and new projects are the ones that are going to be driving the profile. So overall the picture we gave at the beginning of this year and as we updated at the end of the first quarter which said transition year for 2011 and then double digit from 2012 onwards that's still a picture that we're very comfortable with.

Michael Alsford, Citi:

Thank you and the question on the contingencies around Brazil and how you've got comfortable with, I guess execution risk from the local service contractors there?

Sir Frank Chapman:

Yes, basically if you think about what we've managed to achieve in less than five years since the first discovery there is no doubt that we are managing to get on with things. We have 11 FPSOs on order; we're about to order two more. We have the first unit in production. We've drilled quite a lot of wells and serviced those operations with Brazilian based services. And on the whole I would say I'm really very pleased indeed with the progress we're making.

I think Petrobras is delivering quite an accelerated programme, with 2.3 million barrels of oil equivalent production capacity already in train. And the schedule for FPSOs two and three are absolutely on schedule at the moment. We're very pleased with the progress they are making. And even the eight hulls programme, which is at a much earlier stage, is a little behind with engineering, but in terms of the overall manufacturing process - very happy with the preparations that are being made there.

So confidence grows from actually observing things going on, physical work happening, schedules being adhered to, services being provided and most of all Petrobras showing its determination and commitment to absolutely getting the maximum possible out of these discoveries.

Michael Alsford, Citi:

Thanks very much.

Jon Rigby, UBS:

Just also to focus on Brazil if I can, can we just dig a little deeper into the comments you make about the FPSOs basically producing out your increased reserve number and the increased efficiency on the wells. So if I understand you, can we assume that the FPSO portion, the surface portion of the capex you were envisaging across the life of Santos essentially doesn't change for the increased production?

And then on the, I guess the second largest bit of capex slug, I assume you're assuming some increase in well stock because of the increased reserves. But can you characterise what kind of efficiency you'd expect in terms of the sort of wells per ultimate reserve recovery across the life of the fields? What I'm trying to get at is with all these moving parts, what does the improvement in capex per produced barrel end up being if that's possible?

Sir Frank Chapman:

First off I think it's a reasonable assumption to say that there's no increase in the capex and I think that that also extends to the well stock. I don't think we will. Essentially what you've got to think about here are five fields, which prior to these increases were developed through a number of FPSOs positioned aerially over these discoveries. And then what we've had is a number of improvements, such as better reservoir properties, especially in the flanks for Lula, a lot more. Very much improvement in Iara for example.

We've had better reservoir connectivity, continuity, deeper oil water contact. In Lula we're now going to apply water alternating gas enhanced recovery techniques from Phase I.

So when you put all these things together what actually happens is that that aerial coverage of FPSOs that we have in each of the fields is simply able to access, with the same number of wells, more resource. So you've got three phases if you like, you've got the first phase which says actually I need say for example ten wells in this area but I can actually get to plateau with four or five wells in the beginning. So it means that you get to your plateau earlier, although ultimately you'll probably need the same number of wells that you had originally in your plan.

When you've got your fleet of FPSOs you can imagine that if you install one in year one and then another one in year seven it's

quite conceivable in the old plan that the unit one is off plateau before seven comes onstream.

Now because we've got a lot more reserves to develop it is a fact that you will have a higher utilisation of the aggregate installed capacity, such that unit one may have a longer plateau and therefore be delivering higher production when the unit seven comes onstream.

Added to which of course we've always said and this applies anyway - de-bottlenecking capacity will be there. And then once this is onstream you will see a higher aggregate plateau production and you will see an extension of that plateau because the wells will produce more for longer. And in this way it is our intention and it is also our belief that we will recover all of this additional production, substantially all of it - at least the same proportion that we had envisaged in the field development plan that was in place prior to the resource upgrade.

Jon Rigby, USB:

To produce the same proportion out before the licence finishes?

Sir Frank Chapman:

Yes - and by the way the licence finishing is in a way a artificial end point, because I think we have in the agreements rights to apply for an extension and the ANP have rights to extend or not extend. But so far down the production curve it would be quite odd for the ANP to say to us, by the way take away all your production kit, which at the end of the producing life we're required to take out of the country, take it all away we're going to get somebody else to develop the last barrels.

That would seem to be a quite inefficient thing to do and therefore we have internally, although we've not included this assumption in our plan at present, we believe internally that the probability of us getting an extension beyond the end of the current licence

period, we believe that probability is quite high. But of course at this stage it's not the thing that most uppermost in our minds, we're really interested in getting all of the FPSOs in place.

So I think the idea that we would use the same fleet of FPSOs to produce all this extra volume wasn't sufficiently clearly spelled out by us in the previous release, which led to some analysts believing that these reserves were present in new discoveries requiring a new set of infrastructure for their development. And what we're attempting to do here is to make it much clearer that the unit value of these extra resources is actually not far less, but rather far higher than the average unit value for the resources that existed prior to the upgrade.

Jon Rigby, USB:

Okay, understood that's very positive thank you.

Lucy Haskins, Barclays Capital:

Thank you, good afternoon and may I congratulate you on your recent Knighthood Sir Frank, very well deserved.

Sir Frank Chapman:

Thank you very much.

Lucy Haskins, Barclays Capital:

When would we expect to see some production granularity effectively come through in terms of the new resource numbers in Brazil? Is that something we will be waiting for until the February 2012 strategy update, or are you hopeful that we'll have some incremental information once you've had the discussions with the consortium partners?

Sir Frank Chapman:

Yes, of course we want to put as much information as we are able to put into the market to aid understanding. Considering that the resources have doubled since the beginning of last year what we are dealing with here is of course a very rapid evolution of reservoir understanding. The dynamic data that we're observing now, in particular, has really confirmed what I would describe as

our very best expectations. And I think that given the pace of change it is inevitable that the partnership's work is sort of never ending. No sooner do we get one field development plan in place, then we've got more information to discuss and to agree which reservoir parameters we're going to establish as the base case.

Flowing from that of course, we then need to optimise field development plans and flowing from that in turn comes the number of FPSOs and the plateau production rates.

The other thing I would say is of course we often forget when we're dealing with all of this that rather than a single field where we can have great clarity at an early stage of sanction - of the development programme, the unit costs, the production profiles and all of that, what we're actually dealing with here is multiple giant or super giant fields. And of course it will take a little longer for all of that to settle.

I think it is encouraging that all the partners are really focused on recovering all the economic reserves in the licence period. I think it is reassuring that already with 13 FPSOs, as I've mentioned before 2.3 million barrels of oil equivalent a day total capacity have been ordered or are about to be ordered. And it is reassuring that there are almost certainly going to be more to follow and that we will enjoy updating the markets when we settle the plans more firmly with our partners.

So I would certainly hope to be saying more to the market at the latest when we come round to February next year and if not sooner. In the meantime the figures that we're giving you will help you to take your existing assumptions and extrapolate these - across a larger resource base which itself - the incremental volumes which do not require any incremental capex.

So I hope that helps you. I do understand your desire to have more specifics and let me reassure you that when we're able to do that we will certainly be doing it.

Lucy Haskins, Barclays Capital: Thank you.

Irene Himona, Societe Generale: Good afternoon gentlemen I have two questions please. So first on LNG in Q2 I can see your diversions are 80%, up materially versus last year. Could you talk a little bit about developments you have seen in the global LNG market in the second quarter following the Japanese crisis and the Japanese situation?

My second question on Brazil, I just wonder whether in the very, very recent Petrobras strategic, or new strategic plan you can see any read through, you can see any broad recognition or confirmation by the operator of the statistics you are discussing this morning with us? Thank you.

Sir Frank Chapman: Yes, just on the statistics on Brazil, I think it is fair to say that there is an increasing convergence amongst the partnership of views. If you've read the views of other members of the consortium, including Petrobras itself, the picture is generally one of increasing volumes, of lower unit capex as these enlarged resources are beginning to be recognised.

We are all moving at different speeds in this, and with a different level of perhaps experience with this type of reservoir. But the trend of course is similar in each case and I believe that we are looking here at pretty high levels of convergence. The information that has been released recently by Petrobras, our analysis of that information shows that we're actually quite strongly aligned when it comes to 2015 production outlook and when we move out to 2020 we're also quite strongly aligned, even though I expect these figures still to further increase.

So I'm quite happy with the fact that all of the partnership is moving in the same direction, albeit that the rate of change, the pace of change of knowledge and assimilation of that knowledge will vary from partner to partner. But on the whole I think all the partnership members are smiling at the moment that we have here something very special. Fabio do you want to say anything on diversions?

Fabio Barbosa:

About the LNG it is basically the fact that we have a much stronger market in the Asia Pacific region and also in South America. And as you can see by our numbers we managed to deliver in the first half of the year, 23 cargoes in South America alone. That compares with 15 cargoes last year in the same period. Asia, of course, posting a very strong performance and the US really showing a weaker market than last year.

So it's basically the result of the market fundamentals and the relative strength of the Asia Pacific market combined with the South American development.

Sir Frank Chapman:

If I could just add to that Irene, I think that the situation in Japan has not really affected significantly our trading. So it will be something which is not the cause of this year's overarching LNG performance, but it will make - it has made the environment in which we're working somewhat tighter. So it's an incremental contributor to performance rather than something which shapes the overall annual performance.

What is evident however, is that the catastrophic situation that has occurred in Japan and the follow on policies that are being implemented by various governments around the world, who are now changing their plans not to use further nuclear means that the picture is tightening and it's causing, particularly Asia Pacific

customers to come back to the table somewhat earlier than hitherto planned in order to engage and start to consider their next tranches of long term supply.

That is completely evident from the interaction that we're having with a broad spectrum of customers, particularly in Asia Pacific.

Irene Himona, Societe Generale: Thank you very much.

Oswald Clint, Sanford Bernstein: Thank you, the first question just back on Brazil, I know you've mentioned a greater connectivity across the Lula structure before and today talking about that again in context of all of the reservoirs. Is this what you're saying that you do expect this great connectivity across all of your five discoveries that you're talking about? I just wanted to clarify that.

And then secondly maybe just over into Kazakhstan I remember Ashley I guess was leading the negotiations with the government on Phase III or in terms of recent discussions, is that something that's still ongoing under Fabio, or can we expect some update on Phase III Karachaganak at some stage?

Sir Frank Chapman: Yes, I mean connectivity; yes we are seeing an incredible level of connectivity. When you drill a well and you produce it over a long period and you believe that it can see more than three billion barrels of crude oil connected to that single well bore that is giving you an incredible level of connectivity. And what you see in the Lula Sul production well bore you see accurately reflected, mirrored in the P1 well three and a half, four kilometres distant, you can see the two pressure profiles moving absolutely lockstep.

So this is really much better in fact than we ever could possibly have hoped for and the level of understanding of this connectivity is of course greater in some areas than in others, but we believe

the basic features of this carbonate environment will make themselves known to us as we drill more and more appraisal wells. So in other words we think we're going to find this everywhere and the evidence that we've got so far supports that. It's just that we have more evidence to date in certain structures such as Guar and Lula than we have for example in Lara where we've only drilled two wells.

So I think that is a very positive outlook in terms of connectivity. The volumes connected, as observed in these wells during DSTs and long term production tests are quite enormous actually.

In Kazakhstan we have a continuing process. Ashley Almanza is still leading that process. I would say we have a constructive and very active dialogue. The meetings now have really turned up a notch in terms of their intensity and they are amicable discussions that are going on and I would expect that we should be able to conclude a broad based agreement on all the issues between the various parties in the course of 2011. At which point we will be able to say more about the process for future phases of Karachaganak. We would not of course make any move on further investment decisions, or further even engineering of solutions until we have cleared away all of the issues that exist today.

Oswald Clint, Sanford Bernstein: Thank you.

Hootan Yazhari,
Bank of America:

Thank you, good afternoon gentlemen, a couple of questions. I know you've been shying away from giving specifics on Brazil, but I'm going to draw the questioning towards that. Can you please give us some sort of indication of what sort of flow rates you're now looking at? I know Petrobras has been talking about flow rates of 20 to 25,000 barrels a day, what order of magnitude

should we be looking at now, any sort of guidance you could give there would be very helpful?

The second question I had was regarding the floating LNG side of the equation in Brazil. And if you could give us an update on what's been happening there and how things are looking on that front? Thank you.

Sir Frank Chapman:

Yes, I think basically we have said in the past that certain wells and I'm thinking particularly of Guar and Cernambi which is what we thought was the northern part of Lula, now we believe that it is a separate field. We said quite clearly that we believe these wells have an initial flow potential of 50,000 barrels a day. And so everything in the spectrum from 25,000 barrels a day, through to 50,000 barrels a day is possible.

There will of course be areas of the field that are developed later that have lower flow rates than these, but we have extensive areas of the field which we believe can produce at rates in this range. These are of course oil rates and then we have to add the additional gas production to those oil rates.

On FLNG we are studying as a consortium a number of uses for this gas. There are basically four uses for the gas, the first is obviously fuel gas which is a relatively small proportion, the second use is for water alternating gas injection as an enhanced recovery technique, thirdly we've got export via pipelines and the first pipeline is about to be connected. In the coming days we should see the commissioning of this pipeline which goes via Mexiho to the shore. And then we've got other pipelines which are under consideration.

And then the fourth element is floating LNG, now quite how - which of these options we are going to emphasise in the

development plan and which of them comes first and which follows, i.e. the order, the sequence that is something that's under consideration by the partners presently and we would hope that we would land decisions on the sequencing of the development of these options - certainly by the fourth quarter of this year.

Hootan Yazhari,
Bank of America:

Understood, thank you.

Jean-Luc Romain,
CM CIC Securities:

Good afternoon, my question is about Brazil as well. Could you update us on the further exploration and the appraisal work which is carried out, or will be carried out on the other discoveries like in Corcovado or Abaré West, and of course on BMS-10 which represents only 5% of your reserves and the resources in Brazil, that is around 300 million barrels of oil equivalent. If you could give us an update on the work programmes there?

Sir Frank Chapman:

Our emphasis at the moment, clearly, is on the 95% rather than the 5%. And there is further prospectivity in BMS-10 for example there's the Sagitario prospect (BMS-50) which is potentially quite significant, which we will drill, I want to say the back end of this year. Having said that these exploration programmes themselves are actually giving way to higher priority production activities. So this is a little fluid, but I think Sagitario is currently scheduled to be spudded in the late part of this year.

Apart from that we are - I would say focusing our major effort on the appraisal and development activities rather than going back for example to some of these other discoveries.

Jean-Luc Romain,
CM CIC Securities:

Thank you.

Anish Kapadia, TPH:

Good afternoon, just sticking with the Brazil theme, just some more specifics if you could. You gave last year a kind of implied EUR per well of about 100 million barrels, so I was just wondering what do you expect that to go to now and if you could update at all the \$5 per barrel capex, \$9 per barrel opex?

And then just secondly on the other fields where you've got around 300 million barrels, Corcovado, Macunaíma, Parati, Abaré West, the aggregate number sounds quite low for those fields. So I was just wondering if you could explain - has something changed on those and should we assume that those aren't going to get developed in this decade?

Sir Frank Chapman:

On the recovery per well, as I said to Lucy earlier on the call, we are in the process of rapidly evolving the picture here. We are going to take time to sit down and agree all of these development parameters; field development plans with our partners. And so for the moment I don't want to give you a figure for the recovery per well now that we've got each well producing quite a lot more.

I'm going to come back to this subject at a point in the future. For the moment however I think it is quite straightforward for you to take the new, much higher volumes and make some assumption about how the capex and opex figures undiscounted, or even discounted if it comes to that because the profiles can be estimated here. But the capex and opex figures on a unit basis can be estimated, you're not really installing any more facilities and you're producing a lot more reserves, so you can certainly make an estimate of unit capex and opex.

In terms of the 5%, I think it is fair to say that structures such as Abaré West and Parati are fairly - relative to some of the other structures where we're talking about multi billion barrel discoveries - these other structures are relatively small and capex

efficiency and economics will mean that their prioritisation slides down the league table of priorities. So I think that's a reasonable assumption and we've tried to give guidance as to the materiality of those things by indicating that 95% of the resources are in the five big discoveries.

Anish Kapadia, TPH:

Just to follow up on that the one that was kind of interesting to me was Corcovado because I know originally you were talking about that as a billion barrel plus structure. So can we take that as you kind of taking the numbers down on Corcovado?

Sir Frank Chapman:

Yes, with Corcovado there are differing views in the consortium regarding the type of play we're dealing with. It's a much older sediment that we're dealing with there and in common with Parati it's a different type of play. So you're dealing with a 40 API light crude in a volcanic clastics type of environment, this is what we believe that we are dealing with, so geologically a much deeper section. And we believe that for the moment we should certainly focus rather on the development of the five major discoveries, rather than focusing more investment on appraisal of something which is a very different style of play altogether.

Anish Kapadia, TPH:

Okay that makes sense, thanks.

Sir Frank Chapman:

Well thank you very much everyone for your questions. If I may to conclude our call today we have continued to make good progress with our major growth projects, most notably in Brazil where we have seen net reserves and resources doubling since 2010, huge additional volumes, which have a substantially higher unit value.

So 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 the 25th of October. So I want to say goodbye for now and thank you very much.