

**BG GROUP**



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**2011 First Quarter Results**

**10 May 2011**

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**Introduction: Chris Lloyd**

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

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

**Frank Chapman**

Good afternoon ladies and gentlemen. I would firstly like to welcome Fabio Barbosa, our new CFO, to his first set of results for BG Group.

You'll have seen our statement, and I would now like to spend a few moments taking you through the main points before I pass over to Fabio to take us through the financials in more detail.

This was a challenging quarter for our exploration and production operations, marked by ongoing civil unrest in North Africa, severe flooding in Australia, an unexpected increase in UK taxation, and a shutdown in the North Sea.

Exploration and Production total operating profit was up 6 percent year-on-year, reflecting higher realised prices. However, the benefits of higher prices were partially offset by a 5 percent reduction in production volumes caused by the factors referred to in our statement, and to which Fabio will return in a moment.

As a consequence of those factors, we are now expecting 2011 production growth to be modest.

However, the plans we set out just three months ago in our February strategy presentation remain unaffected, including the strong ramp-up in production beginning in 2012 and extending right out to 2020.

The delivery of this major programme is supported by significant progress through the quarter in Brazil, in the USA and in Australia, alongside further exploration and appraisal drilling success offshore Brazil, and a further gas discovery offshore Tanzania.

Capital investment in the quarter provides one measure of the positive progress with our growth programme. This amounted to some \$2.3 billion in the period, up 21% year-on-year.

During the quarter, the most significant advances in our growth programme were made in Brazil.

The first permanent production module on the Lula field is now producing around 25 thousand barrels a day. Meanwhile, construction of the next two production modules is around 50% complete, and well on schedule. We also expect to receive tenders for the fourth and fifth modules in this quarter, and work to construct the hulls for eight further modules is progressing to plan.

We began the extended well test on Lula North East – the location for the second Lula FPSO – and are now producing 18 thousand barrels per day, constrained by facilities. We also saw further success with the Guará Norte well, where a drill stem test confirmed a production well potential of some 50 thousand barrels per day.

We completed the Iara Horst well – an appraisal of the very extensive Iara discovery – which encountered good-quality oil, in a thick reservoir section with substantially better characteristics than the discovery well.

And we made a new discovery with the Macunaíma well in block BMS-10.

Meanwhile, in the US, we continue to see good momentum in our shale gas business. During the quarter we spudded 46 wells in the Haynesville shale in East Texas and North Louisiana, where we

now have 22 rigs operating. We also spudded seven wells in the Marcellus shale in West Virginia and Pennsylvania.

In Australia, progress continues with our Queensland Curtis LNG project, with engineering work, pipeline activities, procurement of long-lead items, development of water treatment plant, and clearing and civils work on Curtis Island. Together, these account for capital expenditure in the quarter of more than \$750 million. The severe floods I mentioned in my introduction have primarily impacted the drilling programme. Efforts to mitigate this are in hand, with the 2014 first LNG date unchanged.

We concluded negotiations with Tokyo Gas for the supply of 1.2 million tonnes per annum of LNG from QCLNG and from our global LNG portfolio. Tokyo Gas has also become an equity investor in the upstream and the LNG plant. The transaction marks the first Japanese purchase of LNG manufactured from coal seam gas.

We also signed an agreement with Chubu Electric for the sale of up to 122 LNG cargoes over 21 years, starting in 2014 and to be supplied from our global LNG portfolio, including the QCLNG plant.

Meanwhile, we announced our third successive gas discovery offshore Tanzania. The Chaza-1 well is around 200 kilometres from our previous discoveries and enhances further our confidence in this important new play, which is well-positioned to access Asia-Pacific LNG markets. We also acquired 5 thousand square kilometres of new 3D seismic data across our three blocks, ahead of a second drilling campaign expected to start in late 2011.

In March, we signed a Heads of Agreement with the government of Kenya to acquire operated interests in two offshore blocks, subject to negotiation of Production Sharing Contracts. Finally, in April, we added an additional licence in Norway, and in India we were identified as the qualifying bidder for new acreage off the west coast.

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.

As Frank has commented, our results for the first quarter were impacted by a number of significant events.

Total operating profit for the quarter of \$2 billion was 1% higher than last year, as the benefit of higher realised prices was largely offset by lower E&P production volumes and by a lower LNG result.

Earnings of \$819 million were also significantly impacted by the increase in North Sea tax. This resulted in an additional charge of \$265 million in the quarter, including a one-off charge of \$203 million to restate deferred tax.

Despite the challenges of the first quarter, the Group remains soundly financed, and our long-term growth plans are unaffected by this quarter's events.

I'll now take a few minutes to highlight the performance in each of the Group's business segments, starting with E&P.

Revenues increased 9% in the quarter to \$2.5 billion. This reflected higher realised prices, partially offset by the 5% fall in production volumes.

E&P total operating profit of \$1.3 billion was 6% higher than last year. The increase in revenues was partly offset by a higher exploration charge.

Production volumes were principally impacted by the shutdown of the Everest and Lomond platforms in the UK North Sea, largely for elective maintenance. Everest and Lomond are back onstream, and the re-start of the Erskine satellite is imminent.

Production in the quarter was also affected by civil unrest in two other countries where BG Group operates – Egypt, and Tunisia.

In Egypt, there was significant disruption to normal patterns of gas demand, with a consequent impact on production volumes. In Tunisia, the re-start of Hasdrubal was delayed.

Unrest continues in these countries, with sporadic disruption to our operations. As a result, we now anticipate a delay of several months to projects scheduled for later this year on West Delta Deep Marine Phases 7 and 8.

Finally, you will have seen reports of the serious flooding in Queensland in Australia. Unsurprisingly, given the magnitude of this disaster, production volumes in the quarter were down. However, all nominations were met.

Overall, we estimate that we lost 4.2 million barrels of oil equivalent compared with our expectations in the first quarter. We also expect some continuing shortfalls, particularly in Egypt, as I have mentioned.

As a consequence of these factors, we expect full-year production to be lower than anticipated. We expect modest production growth in 2011, ahead of the strong ramp-up in volumes from 2012 through to 2020.

Our average realised gas price per produced therm increased by 6% year-on-year to 39.5 cents. This reflected market prices that were generally higher, together with favourable changes in the production mix. Our average realised oil and liquid prices increased by 42% and 33% respectively.

Unit operating expenditure in the quarter rose to \$7.99 per barrel of oil equivalent.

The increase compared with last year reflects the impact of shutdowns, changes in the production mix, and higher prices that impacted our costs through higher royalties and tariffs.

If the oil price remains around \$100 per barrel for the full year, we would expect operating costs to be between \$8.50 to \$9.00 per barrel of oil equivalent.

The exploration charge of \$184 million in the quarter was \$80 million higher than last year due to the phasing of our programme.

In the quarter we had three exploration and appraisal successes. However, the Titania well in China was dry. We intend to drill a third well offshore China later this year.

As before, we expect our gross exploration expenditure for the full year to be around \$1.4 billion, excluding acquisitions. We expect that about half of this will be expensed.

Total operating profit in our **LNG** segment was \$570 million in the quarter. Shipping and marketing profits of \$501 million were in line with our expectations. However, these were 14% below the results for the first quarter of 2010, which benefited from particularly strong weather-related gas demand in the United States.

We gave profit guidance for the LNG segment as a whole of between \$1.9 and \$2.2 billion for 2011. We now expect to be towards the upper end of this range. We also expect our performance to be heavily weighted to the second half of the year.

Turning now to **Transmission and Distribution**, total operating profit increased by 4% to \$145 million, with good revenue growth in both Brazil and India.

At Comgas, \$21 million were passed back to customers in the quarter. This compares with net recovery of gas costs last year of \$11 million.

Excluding the timing effect of gas cost recovery, total operating profit at Comgas was 13% higher than last year. This mainly reflected higher volumes and the strengthening of the Brazilian Real.

At the end of the quarter, \$116 million are due to be passed back to customers in future periods. We currently expect this balance to drop to around \$45 million by the end of 2011.

Net finance costs of \$79 million for the quarter included foreign exchange losses of \$22 million. We expect net finance costs for the full year to be around \$260 million. This excludes the impact of foreign exchange movements.

We now expect our full-year underlying effective tax rate for 2011 to increase to around 45%. This increase is primarily a result of the change in UK North Sea taxation announced on the 23<sup>rd</sup> of March.

Because of this change, we have also recognised a one-off tax charge of \$203 million in the quarter arising from the restatement of opening deferred tax balances.

Including this one-off tax charge, earnings per share in the quarter decreased by 26% to 24.2 cents per share.

Taking into account the impact of the North Sea taxation change, the Group's effective tax rate in future years is expected to be around 43% to 44%. We expect this to decrease over time as more of the Group's profits are generated from outside the North Sea in future.

Cash generated by operations in the first quarter was \$1.8 billion. This was in line with the fourth quarter of 2010. However, it was 28% lower than last year, reflecting a higher level of working capital associated with margin calls on the Group's hedged LNG contracts. These outflows are due to reverse in future periods when the underlying LNG contracts settle.

We ended the quarter with cash of \$1.1 billion. Our gearing was 23%, and our net debt was \$8.5 billion.

We have matched our planned increases in capex with a soundly structured debt profile which has an average maturity of around 9 years, reflecting the Group's firmly established reputation in the capital markets.

We have highlighted the accelerating investment in the Group's major growth projects, the scale of which can be seen in our capital investment in the quarter.

This was 21% higher than last year, at \$2.3 billion. Our capital investment included \$319 million on acquisitions. These mainly related to the purchase of further shale gas acreage in the United States. At reference conditions, our expected full-year capital investment remains at around \$10 billion.

Finally, you will have seen the additional information provided in this release on depreciation, capex and LNG cargoes. We hope you find this helpful. Our intention here is to further the market's understanding of our business performance.

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

Theepan Jothilingam,

Morgan Stanley:

Good afternoon gents, a couple of questions. Just firstly on the financials Fabio, I was hoping perhaps you could give some guidance around depreciation for the full year given your revised outlook on volumes and how you see depreciation per barrel moving in the next couple of years?

And then secondly, just on Australia I can see that - you had quite an amount of capital investment already go into QCLNG, my question was just relating to the potential for a third train, how far down the line are we on the potential for a third train and should we be looking for a potential sanction on that in 2011? Thank you.

Frank Chapman:

I'll take the third train if I may first Theepan, good afternoon to you. As we said in February, we continue our efforts at marketing, and you'll see two further disclosures this quarter for successful efforts in that respect. We said also at the fourth quarter results that we reckoned we had 18 months, two times nine months effectively is the lead time gap, so we have effectively 18 months from the sanction of trains one and two to catch, if you like, the deadline for sanctioning train three and thereby achieving the economies that go with sequential building. So the deadline that we're trying to work to is a sanction of train three by the middle of next year.

Now again if you look back to the February strategy presentation what we said at that time is that we had moved our total reserves and resources from something like five trillion cubic feet, to 20 trillion cubic feet since the beginning of 2008. And that 20, 21 or thereabouts is actually sufficient for three trains. The question really is the level of confidence that one has in that as a basis for sanctioning substantial capital investment.

So the name of the game at the moment is the maturation of that reserves and resources base within this period. And of course that has suffered some impact because of the flooding and the impact that's had on access to drilling sites, but we're still focused on moving some of the prospective resource into a higher confidence level to underpin a third train sanction. So that's all I can say on that at the moment. Fabio, do you want to say something on the financial and depreciation?

Fabio Barbosa:

I'm clear that depreciation should track the capex disbursements that we implement throughout the year, adjusting for the part of exploration of course that we are expensing. But basically we should grow in line with the capex for growth. Okay?

Theepan Jothilingam,  
Morgan Stanley:

No, that's fine, so are we looking at - let's say relative to full year 2010 what are we looking at?

Fabio Barbosa:

You have the number for the total capex for the year, and you know how much we are spending in exploration. So, you know.

Theepan Jothilingam,  
Morgan Stanley:

Okay, fine. That's perfect thank you.

Jason Gammel,  
Macquarie:

Thank you gentlemen; I had a couple of questions about your activity in the United States. First of all can you talk in Haynesville about roughly what percentage of your acreage is now held by production and where your rig might go once you hit full retention? And second could you address which plays the acreage you acquired during the quarter are prospective for?

Frank Chapman:

The Chief and Hanley and Bird acquisitions are Marcellus plays and they are in what we regard as an area adjacent to some of the best drilling results we've have so far in the Marcellus. On the percentage of our production in the Haynesville that's held by production actually, I don't know that answer to that, but I'll be happy to ask our people to follow up.

Where we're concentrating of course at the moment is drilling wells in our core area of the Haynesville, Caddo, De Soto, this area and of course those are areas which are already in production and our activities represent an intensification of that production by infill drilling. So that's really the main focus.

A more general answer to your question is that we are not facing constraints, or drop dead if you like end of licence constraints with respect to retaining our key, core licences. And therefore we are able to focus our drilling campaign on the most productive areas.

Jason Gammel,  
Macquarie:

Very helpful, thanks Frank.

Jon Rigby, UBS:

Okay thank you, two questions on one LNG and the guidance where you were very careful to sort of talk about timing through the year and I just wondered what the driver of that guidance is, is it the structure of the original hedges you put in place, or is it something to do with how you see the market?

The second question is to do with Egypt, I just wanted to know in a little bit more detail what the constraint or the time line will be to getting production back on, will it be your ability to mobilise rigs, etc, to complete the work that you wanted to do, or is it merely demand effects from the local economy? Thanks.

Frank Chapman:

Fabio will come to the LNG guidance in a moment. In Egypt let's just be very clear, this is primarily an issue with the production facilities rather than drilling. We have had some suspension of drilling, but the suspension of drilling due to transit issue with expatriate crews was not of that long a duration, so that's not really had that significant an affect.

But the real issue has been two fold with respect to new facilities. Firstly expatriate supervisory personnel were evacuated for a period and have now remobilised. But also the availability of craft labour, which has been affected, for a period these guys have basically been absent. You know they were demonstrating with half the rest of the population and although there is still some civil unrest prevailing, I would say that in terms of the craft labour the situation has already largely returned to normal with a sort of sporadic - productivity issues occurring from time to time. So I'm much more confident that that situation is returning to normal.

It has however had a significant affect of the degree to which phases seven and eight will contribute to production during this year. But that's really the affect. In terms of years going forward, the reserves haven't changed; the production facilities that are being brought onstream are the same production facilities. So the fundamental developments are going on as planned, but there has been some delay as a result of the people's revolution.

Fabio Barbosa:

Now Jon, on your question on LNG now it is not related to the hedges, or the way they are structured; actually we are waiting - expecting that the sort of seasonality that prevails in the LNG business will also prevail this year and we should expect results more weighted to the second half of the year. But this has no relationship whatsoever with the hedging structure.

Jon Rigby, UBS: Do you have a few more spare cargoes towards the sort of latter half of the year, or during the summer period, is that it?

Frank Chapman: Really I think really it's a feature of the trades that we've done, you know the underlying value of the trades that we have done with these particular customers. And of course, you know whether the realisation of profits falls in 4Q or 1Q that is something that we have some facility in adjusting. And this year, different to last year, we will see a strong weighting, not only to the second half of the year, but also to the last quarter in the year as opposed to the 2010 profile where we saw very heavily weighted in 1Q.

Jon Rigby, UBS: Okay, perfect thank you very much.

Anish Kapadia,  
Tudor, Pickering & Holt:

Good afternoon, a couple of questions. Firstly, I was just wondering if you could update and give some details on your drilling plans for this year. So I think you had planned wells in Egypt, Algeria, Nigeria and Tanzania, if you could just give an update on those? Also, I was interested if you were going to continue your Norwegian drilling campaign and what you learnt from the Brazilian and South China Sea exploration wells you drilled this year?

And then just the second question relating to production. I was just wondering how concerned you are about the kind of continued weak production even before the 1Q result, so back in 2010, from Egypt, the UK, Kazakhstan and India. I'm just wondering if this is due to a redirection of capex towards your new growth projects, or there's some other issue over there?

Frank Chapman: Well on production Anish you've just about named virtually every country we're producing in and I don't actually think it's quite like

that. You know we said last year that this was a year of pretty much flat production. This year is a year of transition, that transition will not be as marked as we had planned because of the events that we've laid out. The programme from that point onwards is absolutely intact. The money is going in, the resources are there, the opportunities to commercialise those resources are completely unchanged and we are making absolutely solid progress with all of the key projects in the portfolio. So I mean on production, that is the case.

An update on drilling, I'm not going to go through the February this year presentation where we had all the wells; there are quite a number of wells. But you asked specifically about a couple of these areas. Tanzania, we've had a third gas discovery, I would say that in aggregate, and this is very preliminary, that we've discovered something in excess of half a billion barrels oil equivalent to date.

The discoveries - two are close together and one is in a different area. The two that have already been made in the north those discoveries already we know are soundly economic as a floating LNG development. But we will of course be pursuing further drilling based upon 3D seismic, 5,000 square kilometres of which have already been shot this year and a new drilling campaign based upon that data we anticipate will commence before the end of this year. And that will be aimed at adding to the current resource tally with a view to underpinning a land-based, two-train LNG project.

We're sort of if you like a third of the way with our first programme, which I have to say is encouraging. Of course we have to be a little bit measured in enthusiasm until we have explored some more. But that's really quite encouraging.

Now in Norway it is a disappointment that our Gullris prospect, it was a very significant prospect, has been dry. We have a number of other important prospects and of course we have recently acquired a new licence in the Barents Sea and therefore our programme in Norway will continue, including of course the further drilling out of appraisal prospects around the Jordbær discovery which itself is a successful now sanctioned development.

In China, we have a number of play types there that we are exploring. Our first discovery was reported last quarter, the second well we drilled in these licences was for a different play and we're the third well, which failed, we're currently analysing the implications of that failure and we're planning to drill yet another well in China later this year.

So there's a little update for you without just going through all of the things that we presented in February.

Anish Kapadia,  
Tudor, Pickering & Holt:

Can I just follow up on just a couple of other areas, if you're still planning to drill the two exploration wells in Egypt and also the Macunaíma well in Brazil if you can give some further details there?

Frank Chapman:

Yeah, Macunaíma is reported in these results as a discovery, which was a good piece of news. And I believe that where we are with Egypt at the moment is that we've got one well firmly in this year and one well that is I believe at this stage in the process straddling the end of the year. And this again will be some facet of a knock on effect of the drilling programme, you know we have long-term contracted rigs and you know they're doing both development work and exploration work. So I think one well has

now gone over into next year, but you know this is to be confirmed if you like Anish.

Anish Kapadia,  
Tudor, Pickering & Holt:

Okay, great thanks.

Brendan Warn, Jefferies:

Thanks guys. I just want to get an understanding in terms of Buzzard whether that's been factored into the UK or the production downgrade and whether that issue, or you see that issue is going to be impacting the remainder of 2011. And just secondly on Tanzania, thank you for a bit of colour on that, but with the third well obviously the test of the cretaceous I'm just wondering how much that well actually cost and whether with the second rig coming in the back end of this year whether you'll be chasing oil going forward or is it now a clear focus on gas and the tertiary?

Frank Chapman:

I think, well firstly on Tanzania, the situation there is that we are of course faced with a completely virgin play and there are all manner of different potential targets in different play styles and concepts. Just thinking about this as the tertiary and the cretaceous is perhaps an oversimplification. And the other thing of course that we don't know about this play about it is a virgin play is what level of oil prospectivity exists alongside gas condensate, alongside gas. So that's all to be determined.

Of course we have theories about this, but none of this really is very meaningful until you've drilled some of the prospects. But look, as I said earlier, on Tanzania one has to be encouraged. I think probably our views are that there is potential in the tertiary along to support an LNG scheme from prospects that we can see today. And much of the area is not covered with detailed seismic.

If we take then into account the deeper prospectivity and prospectivity further out in deep water, there is considerable testing here to be done. So I can't say any more than that, we've got our sleeves rolled up, the guys are working up a bit of a sweat and we'll see where it goes.

On Buzzard this is sort of breaking news, the situation as far as we have determined it with the operator is that we are going to be running at about half production level between now and some time in early June, at which point we will go back from about 80,000 barrels a day at the moment to about 200,000 barrels a day at the beginning of June. And then we will go beyond that level to a maximum level after the change out of some cooler bundles, which are due on site in the first week of July.

So I think the three months that was referred to by the operator yesterday is probably referring to the ultimate solution which is the change out of some cooler bundles in July. So that's really the story there.

Brendan Warn, Jefferies:

Okay, thank you.

Oswald Clint,

Sanford Bernstein:

Thank you, maybe just on Lara please and your comments on substantially better characteristics at that field and after the drill stem test that finished in April, could you just talk about how your expectations for that discovery have changed as a result of all that new data coming in please?

And then secondly I just note in the press about your potential application to export LNG from the US, maybe you could just talk about that, is that a change in strategy, is it just creating an option and would it be related to your Haynesville gas if you were to get permission? Thank you.

Frank Chapman:

On expectations for Iara, I think that clearly all of this data is coming in at present and we're still processing that information, but we see this as very positive news for Iara. I think that also our partners have been expressing, in line with us, similar enthusiasm and ultimately of course this will have an affect on well density and recovery factor. Now I don't think we're ready yet to give further definitive quantitative information, but we're all quite pleased with what's happened. I mean Iara itself is a huge field and you know this is good, good news.

In terms of - and I'm sorry not to give you more, but we haven't given you more on Carioca, we haven't give you more on some of the other discoveries we've made because they're simply work in progress. I have to say that at every step of the way in Brazil at the moment things are going very well indeed, in terms of prospectivity, deliverability, progress with the facilities that we're constructing, our relationships with Petrobras, relationships with the government, things are moving along very positively.

In terms of the US, let me be very clear, our current plans that we laid out to the City in February; they contain no assumption about exporting LNG from the US. And indeed our first priority to our shareholders is to deliver the programme that we set out in February and in that respect nothing has changed. So this is number one priority. However it is a fact that the spread between Henry Hub and oil continues to widen. And for that reason we have taken the step of applying for an export licence, simply to provide a further future business option.

I would say however, that in a fully liberalised market like the US, irrespective of what we do, there is a massive force operating at the moment that's caused by the huge differential between the cost of oil and the cost of gas on an energy equivalent basis. And

that huge difference is a massive driving force to cause changes in the pattern of demand and changes in terms of what people intend to do with their product. So there are many other proponents talking about not only exporting gas, but finding other uses for it in the US. So chemical feed stocks, we see quite a lot of gas demand growing at the moment in the US for products that have in recent years not been manufactured any longer, so fertilisers, for example, would be one reasonable example. Plus the fact that you know with nine million barrels coming in still to the eastern seaboard of the US the case for middle distillate synthesis from gas to support high value products is a strong one and you see some players entering with that sort of play in mind.

Suffice it to say that these are all responses to what is seen as a very wide value gap in the cost and - or cost gap actually and this liberalised market is responding. And I believe that that response will serve to narrow that gap in time. And I think that will be good for owners of substantial gas reserves, which we are now in the US, whether it be as a consequence of deciding to do an export scheme, or whether it be to continue to pursue what we said is our base case. And that's where we are today which is to supply what is the world's largest, most liquid, and in fact most important gas market, the US. That's a little story just to put the record straight.

Oswald Clint,  
Sanford Bernstein:

That's great, thank you.

Michael Alsford,  
Citigroup:

Good afternoon gentlemen, just a couple of questions please, just a follow up really on QCLNG. Could you talk a little bit more about what you're doing to try and offset the delay that you've seen in the upstream piece of the project? Are you looking to get new rigs in to bring forward some of the drilling that you've missed out on?

And then also, there's been a lot of comment by the industry about the kind of tightness we're seeing in the local labour market there, maybe could you talk a little bit about how BG has been impacted and what you're looking to do to overcome that?

And then finally just a second question just on Tunisia, I know you were impacted in the first quarter, but is Hasdrubal now back up and running normally? Thanks.

Frank Chapman:

Yes, on the drilling, this is not rocket science. I mean, in common with pretty much every other operator, we've been unable to access some locations, some areas, because of very poor ground conditions still existing quite a long time after the floods have abated. And really it's not rocket science, basically we have to drill in the areas which are dry. So we're having to in fact change the drilling sequence to some degree. We've got to prepare well sites in areas that we can access. We have to indeed think about accelerating the drilling programme by using more rigs, and so on and so forth.

You know, bearing in mind we have about 700 wells already, we've got to get to about 2,000, we do have time to catch up with this, and all hands are to the pump at the moment to make sure that this particular aspect of the project doesn't cause a delay in the build-up profile. That's what we're talking about here - a change in the build-up profile rather than a change in the onstream date. And of course everyone's very focused on that.

Now in terms of tightness in the labour market, that of course is something that we're not just thinking about now; we have been thinking about for a long time. And elements of the strategy that we've employed to deal with that have been, first and foremost, to be first. And at the moment we believe we may be - well, we

probably are, though I'm hesitant to say this, but we're probably nine months in front of the nearest competitor in terms of our progress. And we are endeavouring to stretch out that lead by intensifying our activity and making sure that we get our critical activities.

You know, these are all sequential activities. You have to do excavation work; you have to do civils work; then you have to move on to steel work; and then piping, and then electrical, and then instrumentation. And we need to be on the front of that wave. So that's one thing we've done.

The second thing we've done is looking very carefully at the contracting strategy; and I won't on this open call go into the specific details. But the way we've contracted this, being the first in line will have an effect on our access and the cost of access of key craft labour.

The third thing we've done is to reserve a fabrication capacity, for example in Thailand, for example in Turkey - early in the process, so that we can get piping spools, some modules, so on and so forth, you know, in advance, made up, shipped to Australia.

And we've also been very active very early in the process with getting on order all of our long lead materials, all of the pipeline materials, the large diameter pipeline materials - all of this stuff has been really expressed through the process to make sure that we don't bump into issues.

Of course, the government's change in legislation with respect to overseas craft labour has been expanded in order to make it more straightforward to bring in overseas craft labour, in order to help with the remediation or the pressure that's put on craft labour supplies through the remediation of Queensland infrastructure

following the floods. And that facility is being made available to all users of craft labour, including ourselves and our contractors. So that's a little bit about the tightness in the labour market.

Tunisia - what was the question on Tunisia?

Michael Alford, Citigroup:

It was just really - obviously you had a little bit of downtime at Hasdrubal. I was just wondering how it's going now in the country, obviously post the social problems that they had?

Frank Chapman:

Well, again, the issue in Tunisia is the same as in Egypt. It was really about expatriate personnel, and for the recommissioning works essentially of Hasdrubal, and the presence of craft labour who were absent doing other things for a time. Now we've now got Hasdrubal back on stream; it's actually working extremely well at the moment, and that we regard now as a problem that's behind us.

As was mentioned earlier, there is still some sporadic unrest, but largely for the moment, all of our production is operating in accordance with plan in Tunisia, and indeed in Egypt where the very dramatic fluctuations in system pressures that we saw during the crisis - with demand swinging up and down - did destabilise the network in such a way that it made it quite difficult to operate the domestic supply system and the way it's interconnected with LNG - to operate that in a stable way. So although - over quite a lot of this period - all of the production capacity was available, operating it in a stable fashion and having the demand to take the domestic supply, that was somewhat problematic.

So, you know, the situation is returning to normal, but we have to be a little cautious and say that there is still some sporadic civil unrest.

Michael Alsford, Citigroup: That's great. Thank you very much.

Fred Lucas, JP Morgan: Two quick questions. First of all, what happens to the £10 billion capex going to if we move from reference conditions to current market conditions?

And the second question is - I think you mentioned a loss of 4.2 million barrels as a result of all the various disruptions in Q1. That's a 7% loss to volumes that I guess you were expecting to produce from the beginning of February to the end of March. I'm just wondering, frankly, do you feel you've got adequate internal management controls around the timely reporting of production issues within the group, and whether in future you might be able to highlight these issues sooner in the quarter?

Frank Chapman: Yes, I mean, look, I'm not quite sure whether you're asking about our internal process or whether you're asking about our advice to the market.

Fred Lucas, JP Morgan: Well, the two are connected.

Frank Chapman: Of course they're connected. But essentially, of course, the whole unfolding of the situation in Australia, with the water, the Tunisian and Egyptian situations - those were a little bit more difficult to really understand what the implications would be for production. So that picture is a sort of unfolding picture. And at this moment Everest and Lomond, which accounts for about two thirds of the loss, again it's a picture where we had a very minor actually condensate leak on Everest, and we decided to bring these platforms down to be sure that we didn't have any more of this type of issue smouldering away. And I think that's the right thing to do, and is reflective of a culture which puts safety and asset integrity first.

So that's where we are. In terms of our reporting, of course, if we ever encounter production levels which are so markedly different from what the market would expect, then of course we would be obliged to advise the market in a timely way.

Fabio Barbosa:

Okay, and Fred, under capex guidance - there are a lot of moving parts, and you just saw Frank's comments on how we are managing to implement, to execute our project in Australia - in a very efficient way with planning and getting the best responsible place at a very reasonable cost. The same goes to Petrobras' and BG's investment in Brazil. They just announced a very important expected reduction in the total quarter's investment there, and there are changes in foreign exchanges around the operations that we are exposed to.

So I would say that for the time being it's a sensible approach to keep the number as it is.

Fred Lucas, JP Morgan:

How much of the 10 billion is locked in, Fabio?

Fabio Barbosa:

In terms of - ?

Fred Lucas, JP Morgan:

Well, not exposed any kind of inflationary pressures or currency ...

Fabio Barbosa:

They are moving parts. We live in a world that we have inflation risks in Brazil; we have some less important effects in the US, in the UK, for instance. So moving parts. We cannot say precisely where we don't have any exposure to any change in the economic environment. I wouldn't do that.

Frank Chapman: Again, Fred, if there very material changes here, of course we're obliged to - and we would in any event - keep the market appraised of that.

Fabio Barbosa: Yes, but for the time being what we see is that we are comfortable with the guidance that we provide.

Fred Lucas, JP Morgan: Very good. Thanks, guys.

Hootan Yazhari,  
Bank of America/Merrill Lynch: Good afternoon, gentlemen. Two quick questions. Going back to Brazil, we're now beginning to see some gas flowing up through to Mexilhão. I just wanted to see when we should start to see the impact of your gas production coming into Comgás, and when can really expect to see any impact coming through there?

And the second question I had was really regarding your LNG marketing initiative that you're undertaking at the moment. You're obviously gunning for a third train in Australia, potentially moving on to a fourth train. What is the climate like at the moment? Are you still seeing huge demand for further trains of gas or are you finding competition from competing LNG projects making it more difficult to negotiate further from here? Thank you.

Frank Chapman: Let's take the LNG climate. As we said in our February strategy presentation, we have held the view for some time - and we believe this is born out by practical experience over the last couple of years, and indeed in the present day - that as one moves out beyond 2013, we see a structural short position in terms of LNG supply / demand balance.

And what happened of course in Japan is that you're looking at a situation there where we believe there will be knock-on global effects. I mean, you're seeing clearly some governments

reconsidering nuclear programmes. We can expect - I think it's fair to say - on average some delay. After Three Mile Island in the US, we saw lead times for nuclear projects going out to something like 12 or 13 years. And of course associated with that would be increased costs, and there would be increased costs associated with more stringent regulatory safety requirements, I believe. I think that's a reasonable assumption.

Now all of this I think will result in medium / long term higher gas demand for power, and as a consequence extra demand for LNG. And this is going to cause a further tightening of a market situation which we already regarded as quite tight. So that's the sort of perspective.

And, by the way, we are seeing, you know, more enquiries flowing today - not necessarily for trade now, although we are seeing trade in China, Korea, Taiwan - additional cargoes - but certainly on new term contracts beginning some years out. So that's the picture as I see it.

LNG marketing activity: we're still at it with the boys out there - boys and girls. They're doing a very good job and we are being successful. As we said, I think, in February, the thesis that we maintain is that for good projects with reliable experience proponents, these projects will find good customers at market prices. That's basically the position we're in, and the position that is underpinned by first hand experience over the last couple of years.

Brazil: all of our gas at the moment in Brazil is being injected into the reservoir. So it will be a while before we see that appear as gas through the Mexilhão system and into Comgás.

Bank of America/Merrill Lynch: Understood. Thank you.

Kim Fustier, Credit Suisse: Hi, good afternoon, ladies and gentlemen. It's Kim Fustier from Credit Suisse. I have one question, please, on Brazil. It seems there are various different levels of CO<sub>2</sub> in the various pre-salt fields, and lower CO<sub>2</sub> content on some fields is obviously good news. But it could also have implications on the ability to standardise the FPSOs and topsides. So my question is - do you see any risks that it could lead to lower standardisation than initially planned, and therefore to potential development delays? Thank you.

Frank Chapman: Yes, let's just be clear here. The current FPSO standard design, if you like, does have a number of variabilities. They're not all completely standard. I mean, some of the oil is a different gravity, and we have different gas-oil ratios that can vary quite considerably, and different CO<sub>2</sub> content. So they are - although we standardise, or try to standardise where we can - we have to recognise that not all these FPSOs are going to be identical. We'll try to make them so where they fall within a reasonable envelope.

The units that we've got are actually very sophisticated, I would say, in that they have oil processing, water processing; they have gas removal and processing; they have CO<sub>2</sub> separation; they have both gas, water - all of gas, water and CO<sub>2</sub> injection capability.

And of course, as you know that - from your experience with miscible flood, CO<sub>2</sub> is not always a negative component to have as a gaseous flow for the purposes of enhanced recovery and consequent oil recovery - miscible flood schemes.

So it is variable across the field. Some areas hardly have any CO<sub>2</sub>; other areas have quite a bit. And we are going to vary the design

of the FPSOs as necessary to deal with those differences. I think probably the biggest single difference is the fact that we are trying to decide whether we need to put CO<sub>2</sub> handling equipment at all on the Cernambi field, which seems to have no CO<sub>2</sub> in it - or very little. And all of the others will have some CO<sub>2</sub>, to date in any event, have some CO<sub>2</sub> handling capacity.

So that's the picture there. I hope that gets you some sort of answer.

Kim Fustier, Credit Suisse:

Yes, that's great. Thank you.

Lucy Haskins, Barclays Capital:

Good afternoon, Frank and Fabio. Just a very small follow-on - I know this all sounds very short term, and so I'm nitpicking, Frank. But on the guidance for the modest growth this year, does that actually have some contingency in it for unplanned maintenance? You talked about Buzzard being breaking news. Would that be a risk to this new lower guidance?

Frank Chapman:

Our view is that this year was intended to be a year of transition from a flat position towards this 2012 and beyond, where we see this ramp up, which is a strong ramp in fact, that extends right out for the rest of the decade. And that ramp up is driven strongly by a whole series of new projects that are coming on stream. The money's going into those projects; the projects are being developed, and that is coming.

This year we had expected to see a good transitional year with a substantial increase in production. We now, somewhat more cautiously, are saying that's modest. So the transition will still be there, but it will be a more modest transition than we had planned. And that's probably as much as we are prepared to say.

Lucy Haskins, Barclays Capital: Okay, thanks. And perhaps - just one follow-on for Fabio. I recognise it's early days, but I wondered what's been the biggest surprise for you since you came on board to BG?

Fabio Barbosa: Oh the pleasant one - to meet a great team that I'm very proud to be part of. Thank you very much.

Lucy Haskins, Barclays Capital: Great to have you there.

Andrew Whittock, Liberum Capital: Yes, just two quick questions, I think. It seems that the Philippines power sale has fallen through. I wonder if you could just say a quick word on why, and whether we should expect the interest to be sold to someone else this year or next?

And, secondly, there seems to have been a very significant increase on the balance sheet and trade receivables. Is that purely down to commodity prices, or is there something else driving that?

Frank Chapman: Yeah, I'll get Fabio to cover the second one. I mean, look, I'm not going to comment on the reasons that the deal fell through, but I would say that in the power business at the moment the assets are being held for sale. So you can take it from that that we are continuing to pursue a disposal route here, and believe that we have the wherewithal to achieve that in the fullness of time.

Andrew Whittock, Liberum Capital: So would that be this year, do you think, or a further length of time than that?

Frank Chapman: Well, obviously our objective is, having decided to sell these assets, our objective is to sell them as soon as is practicable. But I wouldn't string myself up, if you like, by making it appear to others that there is a desperate need to dispose of these things at all costs. I mean, they are good assets; they're valuable assets.

They are good contributors to our earnings stream, and there is no hurry to do this. But long term, you know, the growth in value of our business is elsewhere.

Fabio Barbosa: And there are only a very few of those. The major drivers there are Egyptian receivables that we have on the market, associated with higher prices.

Andrew Whittock, Liberum Capital: Right. Okay, thanks.

Iain Armstrong, Brewin Dolphin: Good afternoon, gentlemen. Actually most of my questions have been answered, but I'm just trying to catch the point which Lucy was talking about, with regards to - have you got something else in the bag with regards to your guidance for the medium term? Could you, for example, ramp up your production in 2012 faster than you were giving guidance for?

Frank Chapman: No, I don't think we have anything else in the bag. The overall - what we have to look at here is - what's the overall picture? And the overall picture is that between 2005 and 2020, over a 15 year period, our aim is to grow between 6% and 8% compound.

What we said in February is that we already have the resources - 16.2 billion barrels oil equivalent of resources, and the ventures necessary to commercialise those resources - in place. And that with those resources and with those commercialisation opportunities, we can get to the mid-point of that range without a single further discovery.

Now the programme is on its way. We'll keep the money going in; you'll hear the reports of progress. So I have no doubt that the company is going to deliver on its long term growth ambition, and it will show that it can grow over this period of 2005 to 2020 - 15 year period - at these rates. And in fact the growth rates at many

points over the period between now and 2020, you will know from the presentation we made in February, you know, some of these rates get to quite high annual figures. So that's really it. This is the long term investment proposition, and that proposition remains unchanged.

Iain Armstrong, Brewin Dolphin: Fine, I understand it. Just going back to your unplanned maintenance in the North Sea. Is there any planned maintenance? Can you just tell us about the planned maintenance you've got for the rest of the operation to the rest of 2011?

Frank Chapman: Oh well, just about every facility we have around the world there are planned shutdowns, as there are every year, for remedial works. Sometimes these shutdowns are very expensive; sometimes they're less so. But I won't on this call go through each and every platform and what we're planning to do there. But there are, as normal, a good level of investment in the maintenance of our facilities.

Iain Armstrong, Brewin Dolphin: Is that a Macondo affect with regards to regulations across the globe?

Frank Chapman: Not a Macondo affect. I do want to reiterate that it is central to what we're doing - and you've heard me say this many times before - that our culture is one that puts safety and asset integrity before any other consideration. If you have a minor condensate leak - and it was a very minor condensate leak - of course one does not want to be left with the uncertainty that you might have at any given time another condensate leak.

Our systems in this case worked. The plant was shut down. We decided very quickly to conduct a full inspection of all similar pipe work, and we did some remedial work and some maintenance works. This is the right thing to do when you have an unexpected

occurrence with safety implications. So I make no excuses for that; it's how a good company should be run.

With respect to general processes. We are evolving processes that enable us to take a more holistic view of the overall risk environment that exists in each of our facilities. And in fact last year, one of these projects to develop new tools to do this won an award at our Chairman's Annual Awards. And those methodologies are now being put to work across our assets, and in fact are now operating in the North Sea. And I think that's another step - a further step - in the direction towards zero injuries and zero asset integrity incidents.

Iain Armstrong, Brewin Dolphin: Okay, one final question just on the comment about Egypt, saying there was significant disruption to normal patterns of gas demand. Are you assuming that those disruptions are going to continue through the rest of this year in your modest growth assumptions?

Frank Chapman: Well, what happened of course was that half the population - or more than half the population - didn't turn up for work; they were demonstrating. So you can imagine that some days we saw gas down at a third or a half of its normal level. And this was actually very erratic. Now that level of instability in gas demand has now passed, and we're seeing much more stable conditions. I can't say that it won't occur ever again because that will be a facet of the success or otherwise of the process that's now to follow - the democratic process.

But all I can report to you is that things are settling down nicely; they're returning to normal, and we're seeing much more normal gas demand patterns.

Iain Armstrong, Brewin Dolphin: Do they have a lot of storage capacity in Egypt or is that gas just not produced, just lost?

Frank Chapman: It was not produced. Some of it was diverted to LNG, but a lot of it was not produced. I mean, the fact is that when you get this erratic thing on a day-to-day basis, it's very difficult to plan the shift, you know, in a stable way, production from one place to another - schedules, shifts and all this sort of stuff. It's very, very short term, and you just have to live with it.

I mean, I would say that all of our emergency response processes were tested significantly - put to the test in these places: in Australia, in Tunisia, in Egypt. And I'm pleased to say they worked, and I'm pleased to commend the people in BG that worked hard to mitigate these effects and respond to pretty unusual circumstances, I would say.

Iain Armstrong, Brewin Dolphin: Thanks very much.

Peter Hutton,  
Royal Bank of Canada:

Hello, yes, just two questions and no follow-ups. You've quantified the impact of the UK tracks, and its financial impact, fiscal impacts on the group. But can you just confirm whether you see any impacts of this on the longer term operations in the UK and the expected investment profile which was first a stable production? That's the first question.

And the second question is - Frank, you mentioned to one of the earlier questions that there was some flexibility around Q4 last year and booking profits into the first quarter of this year. Can you quantify roughly how much that was in terms of profitability?

Frank Chapman: Hang on a minute. I didn't say that we were shifting profits; I don't think that would be legal. But what I was saying is that some trade, yeah, when you're looking at your busy period, Q4 and Q1, it may be that some of the trades in a particular year fall in one place and

another year fall in the other quarter. So it's the pattern of trades that we - the delivery patterns that we have agreed with our customers and how they fall across those two quarters - is what I really meant.

Peter Hutton,  
Royal Bank of Canada:

Understood; understood. But was that a big impact between Q4 and Q1 this year?

Frank Chapman:

Well, absolutely. Q1 2010 was a very big quarter, right. And what we are saying is that if we look at this year, 2011, it's weighted much more heavily toward 4Q. So the heavy trade period, where we expect the centre of gravity for profitability to be this year is not in the first quarter, but rather in the last quarter. Okay?

Fabio Barbosa:

On your question about tax, the impact on our earnings was \$265 million. And for the general question about our investments in the future, as Frank mentioned earlier - of course it doesn't help - additional taxation doesn't help the competitiveness of the UK economic environment. So what we are going to do, as we usually do, is to consider any investment alternative according to our criteria in terms of the financial robustness of the proposition - as we always do. So this additional change in taxes, what it does is to reduce a little bit - maybe a little bit more than that - the competitiveness of our projects in the region.

Frank Chapman:

Well, thank you very much for your questions. Finally, I'd like to conclude with the fact that it was, as you all recognised, a very challenging quarter for our E&P operations. On the other side of the coin we made really significant progress with our growth programme, and our goals out to 2020 remain unaffected.

So thank you for taking part in the conference call today, and I'd like to remind you that we'll be announcing our second quarter results on the 26th July. Thank you once again, and goodbye.

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