

BG GROUP



BG Group

2011 Third Quarter Results

25 October 2011

Introduction: Siobhán Andrews

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

I am pleased to report that we are making material progress across the portfolio in advancing our growth programme. I'll take you briefly through the key developments, before handing over to Fabio to guide us through the financial highlights.

I'll start with Australia, where we invested 1 point 3 billion dollars in the quarter, and where engineering, procurement and construction are all moving ahead in line with a 2014 first production goal for our Queensland Curtis LNG project.

In the Surat Basin, activity is ramping-up as the state recovers from the extensive flooding in Queensland at the start of the year.

In the third quarter drilling activities regained impetus with 51 wells drilled, using four drilling rigs. This trend is set to continue with up to 12 drilling rigs now planned for 2012.

Momentum is also being restored elsewhere across the project.

In the upstream, good progress continued with the start of construction on the first two field compression stations, and with significant advances with the water treatment and storage facilities.

The first water treatment plant at Windibri is now complete and ready for start up; construction is underway at the Kenya water treatment plant; and, we have also awarded a turn-key EPC contract for the Northern water plant.

Further engineering and procurement work also progressed in support of the imminent award of a contract for the construction of six field compression stations and one central processing and compression plant.

At the LNG terminal site on Curtis Island, less than one year on from project sanction, site preparation for the LNG plant is complete. Construction is underway on the foundations for the LNG storage tanks, and for the living quarters which will house construction workers. Additionally, fabrication of the modules for the LNG facility has begun with propane condenser units being assembled in Thailand.

In parallel, progress continues with the main trunkline and gas collection network where all of the 42 inch steel pipe has been coated, shipped and now hauled to infield locations ready for welding and trenching.

So – demonstrable progress on multiple fronts, on the road to first LNG in 2014.

In Brazil, equally significant advances have been made in the development of our interests there.

Commercial production from the Lula field, via the first permanent FPSO, increased to over 35 thousand barrels of oil equivalent per day, from a single producing well – further demonstrating the prolific nature of our Brazilian pre-salt discoveries. Further producing wells are due on stream by the year end.

During the quarter, the 216km Lula-Mexilhao gas pipeline was brought onstream - a key element in the first phase infrastructure supporting development of BG Group's 6 billion boe net reserves and resources in this pre-salt play.

Elsewhere, the EWT on the Guará field again demonstrated the prolific nature of our Brazilian discoveries, achieving production rates of up to 30 thousand boe per day from a single well. On completion at the end of July, the Guará well test had produced a cumulative total of 2 point 8 million barrels of oil equivalent over an effective producing period of just 5 months. Earlier this month, another EWT commenced, this time on the Carioca discovery.

Alongside excellent production and testing results in the Santos Basin, significant progress is also being made on the construction and procurement of other vital infrastructure.

The next two FPSO modules are on-track at around 70% complete. In fact, the first of those vessels is already on its way to Brazil, scheduled to arrive in December this year for commencement of the final fabrication and integration work. Both these 120 thousand barrel of oil per day FPSO's are scheduled to be deployed in 2013.

In addition to these units, we have also signed letters of intent for the supply, charter and operation of two 150 thousand barrels of oil per day FPSOs – units four and five - with both scheduled for start-up in 2014.

This means that contracts are now committed for all 13 of the first phase FPSOs, in line with the plans outlined by BG Group last December. These 13 FPSO's will all be onstream by 2017 and will deliver an aggregate production capacity of some 2.3 million boe per day in this the first phase of our Santos Basin pre-salt programme.

So, progress across the piece that continues to de-risk the development of our world-class interests in Brazil.

We also see this good progress being mirrored elsewhere across our global portfolio.

With a focus on near-term production, the successful commencement of Phase 8a in the West Delta Deep Marine concession in Egypt, represents a further milestone in the development of our interests there – excellent progress in light of the civil unrest earlier in the year. Phase 7 of this development is also due for commissioning by year-end and Phase 8b will further contribute to 2012 performance. In Thailand, new facilities for the Bongkot South development are on schedule for start up in 2012; and, in

the UK, we saw good results from drilling at the Jasmine field along with advances with the construction of facilities, also due for start-up in 2012.

Elsewhere, we reached a landmark agreement for long-term LNG sales to India, one of the world's fastest growing energy markets; and, in the US, the Department of Energy granted authorisation for potential LNG export from the Lake Charles terminal.

And now I'd like to hand over to Fabio for a summary of 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.

Revenues of \$2.5 billion were 28 percent higher than the third quarter last year, reflecting the benefit of higher realised prices and a 1 percent increase in production volumes.

E&P total operating profit of \$1.2 billion in the quarter was 55 percent higher as a result of the increase in revenues, partially offset by higher operating costs.

Production volumes were 1 percent higher, as increased production across the Group's portfolio was largely offset by the impact of shutdowns, third party operated infrastructure restrictions and plant commissioning activities in the UK North Sea.

Production from the UK in the quarter was approximately 4 million barrels of oil equivalent - some 39 percent - lower than we planned; Buzzard, where new facilities are being commissioned, operated at significantly less than full capacity during the quarter and also shutdowns, largely for asset integrity maintenance, were completed at a number of fields including Armada, Everest and Lomond.

In the first nine months of 2011, production from the UK North Sea was approximately 11 million barrels of oil equivalent - some 29 percent - lower than we planned. With Buzzard production re-established, UK facilities are now back onstream and our net output from the North Sea is some 90

thousand barrels of oil equivalent per day higher than the average observed in September. Achievement of the Group's production growth guidance for the year will largely depend on the North Sea performance continuing for the remainder of the fourth quarter.

Excluding the UK North Sea, production volumes for the Group were 6 percent higher than 2010, consistent with our growth plans, with the effects on production of civil unrest in North Africa and flooding in Queensland earlier in the year being successfully offset throughout our portfolio.

Turning to prices, BG's average realised oil and liquid prices increased by 52 and 44 percent, respectively, whilst BG's overall realised gas price increased by 19 percent year-on-year. As for the UK, the average realised gas price was just under 39 pence per produced therm, reflecting the current mix of contracted and spot sales; it is important to note, however, that UK gas production represents about 5 percent of our Group revenues.

Unit operating expenditure rose to \$8.96 per barrel of oil equivalent. The increase compared to last year reflects the UK North Sea shutdowns, the impact of higher commodity prices on both tariff and royalty costs together with changes in the production mix.

The third quarter exploration charge of \$127 million was broadly in line with 2010. 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 third quarter was \$620 million. Shipping and marketing operating profit of \$572 million was 15 percent lower than last year, but ahead of our expectations as favourable market conditions enabled us to sell more cargoes to global markets outside of the United States than we had planned.

During the quarter, we sold only 11 percent of our LNG cargoes in the United States, compared to 22 percent in 2010. Our share of operating profit from liquefaction activities increased by 7 percent to \$81 million.

As a result of the continued strong performance of the LNG segment as a whole and based on current market conditions we now expect total operating profit in 2011 to be above our previous guidance at some \$2.4 billion.

Turning now to Transmission and Distribution: Revenues were up 16 percent in the third quarter, principally reflecting favourable foreign exchange movements in Comgas in Brazil and higher volumes and prices in Gujarat Gas in India. However, total operating profit in the same period fell by 34 percent to \$130 million.

This was the result of the timing effect of gas cost recovery in Comgas where \$72 million were passed back to customers in the quarter, compared with a net recovery of \$67 million in the same period last year. At the end of the quarter, the balance to be passed back to customers in future periods was just \$4 million. Excluding this timing effect, total operating profit at Comgas increased by 42 percent, mainly reflecting higher margins and favourable foreign exchange movements. You will see that we have provided additional disclosures in the Statement to aid understanding of Comgas' performance.

For the Group as a whole, total operating profit of \$1.9 billion in the quarter was 17 percent higher than last year. Earnings per share increased by 4 percent to 30.1 cents per share, reflecting the increase in operating profit and lower finance costs, largely offset by a higher tax charge for the period.

Net finance costs of \$50 million for the quarter were \$73 million lower than last year primarily as a result of foreign exchange movements. Our effective tax rate for the third quarter was 45 percent and I continue to expect the Group's underlying effective tax rate for the full year to remain at around this level.

Cash generated by operations in the quarter increased by 59 percent to \$2.7 billion as a result of higher profits and the continued reversal of prior period margin calls on the Group's hedged LNG contracts.

The Group's extensive investment programme continues, with organic capital investment up 39 percent in the quarter to \$2.9 billion focussed on our major projects in Australia, Brazil, the USA and the UK. At reference conditions, our expected full-year capital investment remains at around \$10 billion.

We ended the quarter with cash of \$1.6 billion. Net debt was \$10.8 billion with an average maturity of around 7 years and the Group's gearing ratio was 27 percent.

In October, we issued \$3 billion of bonds into the US debt market, demonstrating the attractiveness of the Group's credit and providing material, long-term funding. These bonds, which were issued in three tranches maturing in five, ten and thirty years, were rated mid-single A by each of Moody's, Standard & Poor's and Fitch. Also, during the third quarter the Group's committed facilities, which remain undrawn, were increased to \$5.75 billion with extended maturities of between 2012 and 2018.

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

Theepan Jothilingam, Nomura: Hi, good afternoon gentlemen, just two areas where I'd like to ask some questions please. Firstly on LNG, you continue to beat on guidance on LNG, I think in the quarter you've had 35 cargoes going into Asia, I was just wondering whether you think that this type of performance could be sustainable into 2012, or do you see some sort of one offs in 2011 that won't be repeated?

Secondly, on production if you could talk a little bit about the performance of the US business and production there given the low prices. And then any sort of comments on 2012, I mean looking at the slide on growth from February, it suggests quite a steep increase in production for next year, potentially certainly more than double digit, I was just wondering if you could make any comment on that, if you're confident you could make that type of profile?

Sir Frank Chapman: Maybe I'll take the last couple of questions and then we'll hand over to Fabio for the LNG question. On 2012 the production guidance - we don't have a 2012 target as you know, what we're trying to do of course is to achieve 6 to 8% growth rate over a period that goes out to, and indeed beyond 2020.

What we can say is that 2011's production issues were not reserves driven. They were confined to the UK for a series of reasons which we've set out in the release and which we've

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discussed at previous quarters - but these weren't reserves related.

Also, we know that during 2012 we will have a number of new projects which I mentioned in my remarks earlier that will come onstream, Bongkot South, we get a full year of production from the Buzzard enhancement, Gaupe in Norway, it's quite small but still a new contribution, Jasmine which will come on quite late in the year, Margarita Phase I, we talked about West Delta Deep Phase 7, 8A and 8B; so quite a lot of things coming through in 2012.

I should add of course that not all these things are coming on the 1st of January, they're spread out through the year, and some of the bigger contributors like Jasmine, actually plan to come on quite late in the year. So that would give you some sort of indication of the drivers for momentum in 2012.

Regarding the US performance, outside of the UK as I also mentioned in the release, production performance has been on average, across the portfolio, excluding the UK, absolutely in line with our plan. It grew by 6% and there were some swings and roundabouts, we lost a bit early in the year in North Africa, we've lost some which hasn't been recovered in Australia, but that has been offset, we've actually managed to recover the situation in North Africa and we've managed to offset the Australian losses elsewhere in the portfolio.

The US has been progressing in line with our development plans. As you know we're sitting there on some of the best acreage in the Haynesville and I'm quite pleased to report very positive results from our latest drilling in the Marcellus shale as well. So Fabio perhaps you can comment on the LNG?

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Fabio Barbosa:

Thepan as you noticed Asia is really a major driver of the market today and this is actually reflecting the world that we live in. We have a more bearish scenario here in Europe, in the UK and to some extent in the US, but elsewhere there is a lot of activity, GDP is growing faster. And as you can see by our numbers we increased our cargoes to Asia this year in the first nine months of the year by roughly one third. And in South America it's the same, basically in Brazil and in Argentina.

So we have a very strong performance elsewhere and that is helping us to deliver a stronger result in our LNG business. And moving forward we haven't changed our perspective about LNG as we indicated previously to the market. But the fact is that this pattern of growth in GDP by different regions of the world should continue.

So let's see how it develops but we continue to see Asia and Latin American growing faster than the average developed economies.

Brendan Warn, Jefferies:

Thanks guys, just a couple of questions. Just, I guess, an update if we can on the Phase III negotiations in Kazakhstan? And the second question, it relates back to reference conditions and the estimates for capex, certainly for this year and going into 2012. Obviously you've given some guidance of the split of Aussie dollar denominated work in Australia, but are we looking at a sort of 20% increase in capex if we look at actual conditions, is that the right ballpark please?

Sir Frank Chapman:

Well I think that the guidance for 2012 and onwards we'll talk about when we come to February. The issue about Australia of course is that we actually don't know today what the final outturn capex will be since 70% or thereabouts of the capex is going to be deployed in Australian dollars, and of course the Australian dollar relative to our US dollar capex external estimate, the Australian

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dollar of course is moving and we won't know the final cost in US dollars until the programme is complete.

But I think it's fair to say that from our reference conditions the exchange rate we use there for US dollar to Aussie dollar, you know what it is today, you know what the forward curve is, and you know that 70% of the 15 billion that we notified the market about at the beginning of the project sanction - you know around 70% of that is going to be denominated in Australian dollars. So that will give you an idea of the sensitivity of our 15 billion programme to movement in the Aussie dollar.

Brendan Warn, Jefferies:

My question also extends to your Group level capex at the \$10 billion, obviously oil prices are higher, inflation is higher around the world, are we expecting a 15 to 20% capex increase on the \$10 billion that's at reference \$70 dollars in exchange rate?

Sir Frank Chapman:

No, I think that what we're seeing here in the context of the Group's overall programme is not material.

Brendan Warn, Jefferies:

Okay, and Kazakhstan?

Sir Frank Chapman:

Kazakhstan we are now in, I would describe them as, continuous negotiations, and I believe that as I said before that the dialogue is constructive, I believe that an amicable solution is possible. I'm very keen to make sure that we do not set unrealistic goals for the timeframe to conclude these discussions, it's much more important to get the right outcome. So we're taking our time and I'm optimistic that we are converging on a conclusion here at some point in the next, say six months or so.

Hootan Yazhari, B of A,
Merrill Lynch:

Hello gentlemen, two questions please starting with Brazil. Obviously the Lula 1 platform, the connected wells are producing

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at a higher rate than initially anticipated. Can you give us an indication as to whether this is going to be the run rate that you expect from further wells that will be attached, or will you see the flow rates brought down to - the sort of 20 to 25,000 barrels a day that was more in line with what Petrobras was indicating?

And on another point, you make some pretty strong comments on your bond ratings and looking at maintaining your mid single A rating on that front. Can you give us an idea of what sort of actions you'd be prepared to do? Is that more inline with further refinancing, or is it more about having to sell down assets if that's what's required? Thank you.

Sir Frank Chapman:

Okay, on Brazil I don't think anyone really here or in Petrobras is actually surprised about the rates that we're getting. Of course for different areas of the fields we will see different production potential as we've already indicated from some of the production testing that we've done.

What we do know and we said this very, very clearly at the middle of the year is that the very positive results that we're getting from the EWTs points absolutely clearly towards a lower well count overall. We're going to need fewer wells. This is not the first time that I've mentioned this, I mentioned this at the time of the significant reserves upgrade that we published in June. There is no doubt that we will require less wells to produce.

Now for this first FPSO we've had some mechanical problems with the second producer, hence it's not already onstream but it's due quite soon. In total there will be six oil producers, and two water alternating gas injectors and one gas injector. That's the number of wells that we foresee to provide also some redundancy and the appropriate drainage pattern. That's what we'll need in the first part of the development for this particular first FPSO. All

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of those well top hole sections have been drilled or are in the process of being drilled and we'll see those all come onstream in the process of the next year, we'll have all of those things onstream.

So that's really it in a nutshell, I mean prolific is the only word to describe really these reservoirs, they are exceptional reservoirs. And as we get more experience with that we will confirm I believe the significantly lower well numbers required for the development of our resources.

Fabio Barbosa:

As for the rating, Hootan what I would comment is that the bonds that were issued are a clear demonstration of our access to markets and they were substantially oversubscribed, the total book amounted to \$9 billion. So what we meant by our statement was that we will continue to strive to improve our debt profile, restating our access to credit markets, diversifying our sources of funding.

We are also actively managing our operating costs, and as you could observe in the last several years we have been implementing portfolio rationalisation, our power assets in the US and more recently in the Philippines that we hope to conclude sooner rather than later. So we are actively managing our balance sheet and we are happy with our standing before the markets.

Hootan Yazhari, B of A,
Merrill Lynch:

Understood, thank you.

Sir Frank Chapman:

Yeah, it's worth also mentioning Hootan that obviously we will prioritise investment in the most capital efficient projects first. So there is a rank order of capital efficiency and we will take judgements on that from time to time.

Irene Himona, Societe Generale: Good afternoon gentlemen, I have two questions please. So first on FLNG in Brazil, I think last quarter you were indicating that you were hoping to decide at least on the sequencing of pipeline versus FLNG by year-end. I was wondering if there is any progress on that?

And secondly Buzzard, what exactly went wrong for that project to be so much behind your plan? You indicate UK output at 39% below target, obviously Buzzard is key in that. Can you just explain what happened and what you expect will happen going forwards with Buzzard? Thank you.

Sir Frank Chapman:

Well I'm not sure if you said 39%, the number is actually 29% for the year to date, still a very big number of course, but just to get the number right. On Buzzard we have had a significantly more challenging time commissioning these new facilities. Now these new facilities have been built in order to allow areas of the field with a higher H₂S content to be processed and for that crude to be conditioned suitable for transport in the Forties system. And of course getting this platform up and running and proving the quality of the project fit for export through that pipeline system has been more of a challenge than we'd anticipated. That's really the issue there with Buzzard.

Today the platform is producing, I want to say around 215,000 barrels a day. We're inching this up to its design capacity which is 225,000 barrels a day. So the history here has been rather good in terms of production efficiency on Buzzard, and we've gone through a difficult period commissioning new facilities. We will be keeping a careful eye on this, clearly, as to how performance progresses from now on.

With FLNG in Brazil, there I believe it is fair to say that FLNG is one of a number of components of gas exports. So we've got gas injection, WAG that's water alternating gas as well as just straightforward gas injection. We have export via the Lula Mexihão pipeline. There are also two other pipeline export routes being contemplated, studied at present. And there then is, in addition to that, FLNG. We don't have to do FLNG, but it is a component.

My guess at the moment is that FLNG will not be sanctioned as we said at the end of this year, nor will we get to a decision on the timing of it at the end of this year. I think the way things are moving at present we will probably be pursuing more of the pipeline options in this phase and FLNG will be held in reserve as an additional flexibility to be deployed a little later.

So that's my reading of it at this point but things between the partnership are still not fully settled and there are still discussions and debates that are ongoing. I would say that the work that we've got from the three parallel feed competitions has been excellent and two of these studies are, I would say, presenting compelling cases for an FLNG solution. So that's really where we are today.

Michael Alsford, Citigroup:

Good afternoon, just a question on Australia. Could you maybe provide a bit more guidance around QCLNG, clearly positive that you've reiterated 2014 as the start up, but it seems to me that the delivery of that project - you know the key risk is the upstream phase of the project. How many wells do you think you need to get first gas from that project and could we maybe as a contingency see BG looking to sign further third party sales agreements to be able to manage that ramp up more effectively?

Sir Frank Chapman:

We've already signed 10 million tonnes of LNG contracts which exceeds the capacity of two trains and we've just signed another new contract as a heads of terms as we announced in this release with an Indian customer. So we have more than enough demand. Now we don't need new trains LNG actually to be able to supply that, we will have by the time the two trains come onstream by the back end of 2014, we will have 20 million tonnes in our portfolio and can supply all of these customers from that flexible supply.

So we've done enough if you like, marketing work to solidly underpin the development programmes that we currently have in train.

Michael Alsford, Citigroup:

But on the supply side, actually providing the gas to the plant in Australia onshore, how would you go about providing a sufficient level of supply into the plant to be able to deliver those long term contracts?

Sir Frank Chapman:

So as I said earlier on, I mean if we look at the various phases of the plant, the plant itself is doing extremely well, the pipeline is doing extremely well, our drilling activity was interrupted by the flooding, access to sites and actually also the logistical infrastructure, transportation and infrastructure, a huge amount of damage in Queensland from the flooding which has been remediated over the period since then. And all of that has contributed to a significant loss of momentum which is now being restored with respect to drilling.

We will hope to drill this year now about 150 wells in total, that is significantly less than we had originally planned for this year but we are moving up to a 12 rig programme with the aim of drilling something of the order of 500 wells next year.

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So we have a recovery plan in place, we are working that recovery plan. Other facilities such as water treatment, compression, the gathering networks, the conditioning equipment for gas conditioning, all of this work is making progress.

Oswald Clint, Sanford Bernstein: Just back on Brazil Frank, you've mentioned in the past about the flanks of the Lula discovery being higher productivity and having higher reservoir qualities. I'm just wandering with a lot of the testing you've done this year on Guara and Lara and Carioca would you have enough information yet, or could you make any similar conclusions about the flanks of those discoveries down in Brazil?

And then the second question just on the India LNG contract, I realise you're not going to give specifics, but just in terms of modelling how should we think about that contract, is it more akin to the Chinese, or the Singaporean type contracts, or the typical pricing structures that we see out in Asia Pacific?

Sir Frank Chapman: I think that essentially we're looking at the Indian contract at an oil indexed pricing structure. So similar, to the pricing structures that we see in other Asia Pacific customers.

With respect to Brazil the Lula and Guara fields are much more advanced in terms of our understanding. There we have seen really excellent results and of course we've drilled more wells in Guara this year and also performed an extended well test there, which has once again confirmed very high productivities. In fact Guara and Cernambi look to be really at an extreme the very best of the reservoir we've seen, but Lula itself throughout all of the tests we've done looks to be really quite excellent in terms of the reservoir interconnectedness and the reservoir quality.

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Iara is quite a long way further behind, but we are very optimistic about Iara. We have to do a lot more work there in terms of seismic activity, we plan to drill another well next year for testing which is further down, you mentioned the flanks, which is further off the Crestal area and that will provide us with important new information to help to answer the question that you've just asked.

So I can't say any more about the flanks of Iara at this moment, but as far as the other areas are concerned, we're extremely pleased with what we're seeing.

Anish Kapadia, TPH:

Good afternoon just a few questions. Looking at Australia first of all, I was just wondering where you see gross production for next year versus your original guidance of around 50,000 barrels of oil a day equivalent. And given the well results to date, how confident you are in the 1,800 wells that will be required for first production and 6,000 for total production?

The second question on the US, just given where gas prices are at the moment, I was wondering if you're looking to cut the planned growth rate for 2012. And then just finally on Brazil, I was wondering if you could give us an update on your thoughts about potentially selling down part of your Brazilian asset base?

Sir Frank Chapman:

Right that's quite a little list of questions. Let me see where we can start. Very briefly I don't recall actually, and maybe I'm wrong here, I'm looking at my colleagues around the table, I don't recall saying that we would be producing in 2012 50,000 barrels a day from Australia. But you may have picked that off of one of our charts I guess in the early days.

Regarding the number of wells that we require, I believe we have something like 500 wells already throughout the field, we're going to drill 500 next year, there is a thousand wells there and that will

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be by the end of 2012. So as we go through 2013 and into 2014 we will be reaching the sort of numbers that you mentioned.

US prices, at the moment today's prices are, I would describe, as being at the low end of our expected range. We're currently in the process of planning next year's programme, and of course we are discussing with EXCO. I suppose you could say that if we were to believe that the current prices would be sustained over a longer period then despite the, what I would describe, as prolific acreage that we have in the Haynesville and some really excellent results we've achieved recently in the Marcellus, despite that it would be, economically rational to slow the pace of investment in shale production at least for the time being. But we haven't reached that decision, we haven't reached a definitive view on how long we think prices will be at this extreme, this extreme low end, but we will update our plans and our view on the US and inform the market of our views in February.

Brazil, I know there's been a lot of speculation on this, but you know what I'm going to say to you, as is appropriate in a business like ours, we will keep all of the assets in our portfolio under review and we won't speculate on any particularly assets. You know we're going to review all of the portfolio and as and when we actually sign some sort of deal over something then as in the past we will keep the market updated. So we're not going to speculate.

Anish Kapadia, TPH:

Okay, sorry just going back to the Australia question what I was just trying to figure out was you've drilled a number of wells to date, how has performance of those wells been versus your expectations? So, do you think you'll need the same amount of wells, less wells, more wells in order to meet the targets?

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Sir Frank Chapman:

No, I think that we're pretty happy with the sort of number of wells we think that we'll need overall over the whole field life about 6,000 wells. We'll obviously be focusing on the sweeter spots to reduce the well count for the initial start up. No, we're pretty happy and when we get to February we'll show you how we're doing on our 2P reserves figures which will give you some idea of how things are going. So not as much progress as I'd hoped this year on drilling, but momentum being re-established.

Simon Hawkins, MF Global:

Just a couple of questions, one is on the export of LNG from the US, I just wonder if you could give us a little bit more colour on that, especially timing, volumes, or anything like that? And secondly, just on the UK, whether there's any planned maintenance in Q4 coming up at all? Thank you.

Sir Frank Chapman:

No, we've got a little bit of work going on, but it's not material, on the Lomond platform, but it's not material in the overall production picture. I mean it is significant to say, and I think we mentioned it in our release, that current production from the UK is near to what we call a lowest maximum potential production the LMPP which is theoretically as much as you can get out of it, which is around 156,000 barrels a day at the moment. That's pretty close to the maximum we can get. And that's sort of 90,000 barrels a day more than we produced on average in September. So there's been quite a shift in the amount of production onstream in the UK.

Export of LNG, well clearly as spreads have widened between Henry Hub and crude oil prices the case for export of LNG from the US has been further strengthened, that's all I would say at this stage. We have FTA approval to export LNG, to develop LNG export facilities at Lake Charles, two FTA countries in Singapore and Chile, two our markets are of course FTA countries and we're pursuing further freedom to export to non-FTA countries. But I think the case strengthens essentially.

Rahim Karim, Barclays Capital: Hi good afternoon gentlemen, two questions if I may. The first is just around gearing. So you're up at 27%, I was just wondering how you were thinking about the evolution of that gearing obviously in the context of your 30% ceiling and with activity picking up over the next few years whether you're still comfortable with that 30%?

And then the second is maybe just to see if you can provide a little bit more clarity around the outlook for UK volumes. I just want to understand, are you expecting volumes in the UK to be up - in the magnitude of the 6% that you talked about, the shortfall versus the plan for this year and whether that's a decent kind of point for us to look at for next year? Thanks.

Fabio Barbosa: I will pick up this question about gearing and I'll say that of course we are increasing our investment programme. And during this phase it's natural to have an increase in gearing, and actually we expected that to happen. And we are comfortable with the excess to what we indicated previously to the market at 25% for some time. And as you can see by our bond issuance in the market we have full access to capital markets around the world, to very nice spreads, and different maturities. So we are very well financed throughout the market. So it's natural to observe what is happening in our balance sheet and we are managing our balance sheet as we indicated before.

Sir Frank Chapman: I didn't quite understand Rahim that business about 6% UK volumes, I wasn't quite sure about that. But let me just tell you in the UK when we get round to February what I want to explain to the market are two things about the UK, one is how the hub strategy is going where we're adding a lot of value through taking

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third party business and satellite producers over our platforms like Armada and we're now working on Lomond to do a similar thing. I also want to explain a little bit about what we're doing, and I referred to this in the release, about enhancing long term production efficiency in some of these facilities. We've done a lot of asset integrity work in the North Sea this year. Some more of that is still to come as we move out into the future.

I suppose what I should say is that we presented for the last few years the idea of maintaining 50 million barrels of oil equivalent from the UK, or more, out to 2014 and we're still trying to extend it beyond that point. And I'm pretty confident, pretty comfortable that on average out to 2014 we will actually do that. It may not be linear as we take opportunities to improve asset integrity and improve production efficiency, but I'm still comfortable that the reserves are certainly there and the production goal of more than 50 million boe over that period is on average a goal that we should be achieving.

Jon Rigby, UBS:

Just a quick question I want to revisit this gearing portfolio again if that's possible. Do you think that given, I think you've acknowledged some pressure in some areas on capex, increased opportunities around the world, I'm thinking East Africa for instance and also a fairly fixed aspiration of 6 to 8% is that you are sort of boxing yourself in a little bit in terms of your portfolio. And is it the case that running at sort of close to 30% actually would stop you exploring or going after other opportunities?

And then so for instance wouldn't it be better just to step back and to be looking at trying to manage that gearing level down just to give yourself somewhat more flexibility over the next two to three years? Thanks.

Sir Frank Chapman:

This boxing ourselves in, I don't think so. The issue is really for us that we have a rising gearing level which one would of course expect as we go through the most intensive investment - capital investment programme we're likely to see. That expenditure programme is closely attached to the situation in Australia, the situation in US, the situation most particularly in Brazil. And we're going to go through a peak of expenditure in the years 2013 and 2014.

Now if we, even on the fastest track possible, bearing in mind that our strategy is really to do organic, grow our business organically, given that, it is very difficult to imagine how even on the fastest possible track a Tanzania for example could demand significant capex before 2015.

So, we are working extremely hard on some of these things, such as Tanzania, such as the development of the Oligocene in Egypt, such as the exciting prospects there and in Trinidad, various things that we're working hard on in our portfolio. More gas opportunities in Australia in different play types. But most of these things will chew relatively modest capex in terms of exploration and appraisal, studies and that type of thing and start to demand much larger in the success case, capex, as we get through the 2015 period.

Now we need those projects, because once these big projects that we're currently investing in start to produce cash flows then our gearing and our debt levels go right through the floor extremely rapidly, we will need new big, material projects to invest in. So short of us doing something inorganic and you know that we have done that in the past but they have all been relatively modest acquisitions, what I would call half cycle acquisitions, things that you buy in order to further explore and prove up reserves. You know we've done those things but we've never

really engaged in wholesale very large scale inorganic acquisitions.

So given that that's the case as we stay with our organic programme these things that we're working hard to develop will slot in very nicely in time as the cash flows start to come from these investments. So that's really - and just to reiterate what Fabio said earlier on, operating cost management, prioritisation of the highest capital - the most capital efficient projects in our capex programme and continuing with portfolio rationalisation that's been ongoing for some time, these are the things that we'll do in order to keep our gearing level within bounds which support a straight A rating.

Jon Rigby, UBS:

Okay, although it's notable that your disposals year to date have been fairly low in what, I think most people would consider, is a fairly attractive market for sellers and you have a great portfolio to monetise if you wanted to?

Sir Frank Chapman:

I think we have to be a bit careful about that, these things take time, portfolio rationalisation and deals take time if you want to get the right price. I mean anyone can sell anything on the market very quickly if you don't care about the price. So some of the opportunities that we're looking at for non-strategic assets that we have in the portfolio we are taking our time.

I'm not so sure that the view that the market is a very favourable place at the moment is correct either actually Jon, because there are actually today quite a lot of assets in the market, on the one hand lines of finance for some of the smaller players, who historically have been quite interested in buying these things, those lines of finance are not so easily accessible perhaps in today's financial climate.

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- Jon Rigby, UBS: Good point.
- Sir Frank Chapman: So, it's perhaps a little trickier than you might imagine. But we're busy and we'll be successful with what we want to do I'm sure.
- Paul Spedding, HSBC: Afternoon, I just had a quick question on the hypothetical situation that you did dispose of some assets in Brazil whether a straightforward asset disposal would suffer a different tax treatment to a capital injection into a Brazilian subsidiary?
- Sir Frank Chapman: Paul, you're doing very well there but I'm going to say to you I'm not going to speculate on any disposal, and I'm certainly not going to go one step further and speculate on the structure we might use if that speculative thing is done. Answer is no I'm sorry I can't answer that.
- Paul Spedding, HSBC: Can I go for another one?
- Sir Frank Chapman: Yeah, go for another one and I'll try to be kinder the next time.
- Paul Spedding, HSBC: I'd be interested in an update on the Tanzania drilling programme, particularly the potential you see in the deeper plays there?
- Sir Frank Chapman: Yeah, I mean clearly there are - it's early days, one obviously has a go at the simplest things initially which is the tertiary plays, which are where we've had the discoveries. We're going to also be exploring the deeper creatitious prospectivity. We are in an intensive data acquisition phase and therefore the characterisation of all of this stuff is still something very much in train.
- Our next programme of drilling will start right at the end of this year. We haven't quite agreed exactly how many numbers will be - how many wells will be drilled in sequence, we haven't agreed

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that yet with our partners and we have a couple of different rig programme options to pursue that programme; so more on that again in February. But we'll get underway proper again at the end of this year in December.

Telephone Operator:

Okay we now pass back to Sir Frank. I'll return the conference to you now.

Sir Frank Chapman:

So finally then to summarise, third quarter total operating profit up 17% to \$1.9 billion. Cash flow from operations up 59% to \$2.7 billion. LNG operating profit for 2011 now expected to be above guidance at some \$2.4 billion and we are making material progress across the portfolio in advancing our growth programme and indeed the commercialisation of our very large reserves and resources base.

So thank you for taking part in the conference call today and I would like to remind you that we will be presenting our full year results, together with our annual strategy update on the 9th of February. Goodbye.