BG Group

2013 First Quarter Results

2 May 2013

BG Group PLC
First Quarter 2013
Speech for Analyst Conference Call

Bruce Connery, Head of Investor Relations

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

During the course of this conference call, our Chief Executive Chris Finlayson and our Interim Chief Financial Officer Den Jones will take you through the quarter's key business highlights, then Chris and Den 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 2012.

In addition, please note that we have prepared a set of slides covering the topics that Chris and Den will be discussing. They can be accessed through the IR section of BG Group's website. We will not be referring to the slides specifically, but we would invite you to review them in addition to our results release.

Thank you, and now over to Chris.

Chris Finlayson, Chief Executive

Good afternoon ladies and gentlemen and thank you for joining us on our call today.

You will have seen our results statement published earlier today, and before I hand over to Den to take you through our financial performance, I would like to briefly update you on the progress we have made on our key milestones, major growth projects and base assets.

The focus for today is our operational and financial performance for the first quarter; questions relating to strategy will be addressed at our presentation on May 14th in London.

In February, I outlined our commitment to excellence in execution across both base assets and our growth projects, underpinned by a relentless focus on safety. This morning I will update you on our progress.

I am pleased to report that we have delivered on the three key milestones we set for the first quarter and also seen a significant improvement in safety performance in the key focus area of Australia.

In January, the second FPSO in Brazil started commercial production, on schedule and on budget. It is currently producing at around 25 000 boe per day from just a single producer well.

In the North Sea, we brought our Everest East expansion project onstream and production performance is in line with expectations, at over 10 000 boe per day. Production also resumed from Elgin/Franklin.

Elsewhere, we have also made progress on de-risking our remaining milestones for 2013.

We committed to bringing a third FPSO onstream offshore Brazil in the second quarter and also to the safe completion of a planned shut-down at our Karachaganak field in Kazakhstan. Today I can confirm that FPSO 3 is moored in position on the Lula field and is on schedule for first production during the second quarter. At Karachaganak, the 30-day maintenance shut-down started as planned on 18th April and is progressing to schedule.

Additionally, all modules for the Jasmine field in the North Sea have now been installed ahead of schedule, substantially de-risking the project prior to start-up in the fourth quarter.

On our major growth projects in Australia and Brazil, we continue to make good progress against our plans.

In Australia, despite the heavy rain throughout the first quarter, we made good progress on the QCLNG project and remain on target both for first LNG in 2014 and the $20.4 billion Phase 1 cost estimate.

Due to the adverse weather, we were slightly behind our first quarter well target, although we have already recovered the impact with a record 73 wells drilled in April. We also achieved a critical project milestone with the safe connection of Curtis Island to the mainland through Australia's longest large-diameter twin pipe pull. This was a highly complex and technically challenging engineering feat, comprising 1.2 million man hours worked, delivered on time and with zero injuries.

On Curtis Island itself, all modules for Train 1 and the common facilities have been delivered and the steel roof on the first LNG storage tank has been raised.

In Brazil, I have already mentioned the start-up of FPSO 2 on time and on budget. Combined gross production from FPSOs 1 and 2 was around 140 000 boe per day during April and, with the production from the on-going extended well test on Sapinhoá North, this increased to over 150 000 boe per day. These volumes will be supplemented with initial production from the first well on FPSO 3 which is due onstream in the second quarter, as planned.

Production from FPSOs 2 and 3 will ramp up in the 4th quarter as new wells are brought online via Buoyancy Supported Riser systems, two of which are already in Brazil.

FPSOs 4 and 5 are progressing on time and on budget. They are around 60% complete and one hull is now en route to Brazil for topsides integration.

The appraisal programme on Iara, in BM-S-11, continues and initial results from the Iara-4 well have confirmed better than expected reservoir quality. Elsewhere in Brazil, the Sagittario well, on BM-S-50, has encountered good quality oil and drilling to deeper targets is continuing.

Other notable events in the quarter included the completion of our current appraisal programme on the Jodari field in Block 1, offshore Tanzania, with the drill stem test there showing better than expected reservoir properties. On the Mzia discovery in the same block, we have also seen better than expected results from a drill stem test on the deeper Cretaceous play. These good results should have a positive impact on development costs. The drillship, Deepsea Metro-1 is now drilling the Ngisi-1 prospect in Block 4 and will also appraise the easterly extension of the Chewa discovery until the middle of the year when the current contract ends.

We are currently sourcing a new rig to continue our campaigns in Tanzania and Kenya commencing around the end of the year.

In Egypt, we sanctioned the next development phase for the West Delta Deep Marine concession – phase 9a. Drilling for this phase has already started and it will deliver new production in 2014. The receivables recovery mechanism operated as agreed during the quarter with a $100 million reduction in the domestic gas receivables balance.

Clearly the environment in Egypt remains challenging and we continue to monitor the situation closely.

Our LNG business continued to develop long-term supply deals to high-growth markets, finalising the sales agreement for up to 2.5 million tonnes per annum to India beginning in 2015. In Singapore, the LNG import terminal was completed and the first BG cargo is due to arrive next week.

That concludes my brief summary and now over to Den for a run through of the financial and operational metrics.

Den Jones, Interim CFO

Thank you Chris, and good afternoon ladies and gentlemen.

As you will have seen, the Group's total operating profit for the first quarter was down 5% to $2.1 billion.

Upstream total operating profit for the quarter of $1.4 billion was 7% lower as the benefit of higher realised gas prices was more than offset by a 3% reduction in volumes together with higher operating and depreciation costs.

The overall decrease in volumes was in line with our expectations; production in the quarter was lower in Egypt, due to reservoir decline, and also at Elgin/Franklin prior to the resumption of production in March. These reductions were partially offset by the new developments that came on-stream in the last 12 months, including the continued ramp-up in Brazil and East Everest in the UK North Sea.

E&P operating costs increased principally due to higher royalties from new developments in Brazil and Bolivia, while the depreciation charge increased due to new developments coming on stream. At reference conditions, our full year expectations for both these metrics remain within the per barrel guidance given in February of $10.50 to $11.00 per boe for DD&A and $11.00 to $11.50 per boe for operating costs.

LNG Shipping & Marketing total operating profit of $742 million in the quarter was 3% higher. Whilst the results benefitted from lower hedging losses this was partly offset by reduced margins, predominantly driven by the pricing change on cargos delivered to Chile. These results are consistent with the expected quarterly phasing underpinning our 2013 full year operating profit outlook of between $2.5 billion and $2.7 billion.

Earnings for the Group were down 3% to $1.2 billion, reflecting the decrease in operating profit partially offset by a slightly lower effective tax rate of 44%.

The Group's capital investment on a cash basis of $2.6 billion in the quarter was up 5%.

Cash generated from operations increased by 3% to $2.7 billion as a result of favourable working capital movements.

During the quarter the Group's portfolio rationalisation programme progressed, with the completion of a sale of non-core producing assets and acreage in the Cotton Valley formation in East Texas and North Louisiana. The net production we expected from these assets in 2013 was 3 000 boe per day.

At the end of the quarter, the Group's net debt and gearing ratio were $10.6 billion and 23.5%, respectively.

Thank you very much for your attention, and now back to Chris.

Chris Finlayson, Chief Executive

Thank you Den, and we’re now happy to take your questions. As I mentioned at the start of the call, the focus for today is our first quarter performance, questions relating to strategy will be addressed at our presentation on May 14th in London.

Brendan Warn, Jefferies

Just two quick questions and one you've probably answered in a roundabout way, in terms of regional production and variances compared to plan within your other assets you haven't mentioned, if you can give us a first quarter update? I was hoping that you'd continue your breakout of production volumes by country that you showed on the fourth quarter.

And then the second question relating to exploration activities in your first quarter, an update and can you give dry well costs for Notus and timing, I believe it's now looking fourth quarter this year? And then also are you seeing constraints sourcing the rig for East Africa and have there been ordering of long lead items and the like for both Tanzania and Kenya? And I guess with Kenya, is that now well into next year in terms of drilling?

Chris Finlayson, Chief Executive

Okay, quite a few questions there, we will be giving more disclosure at the strategy presentation going forwards. I note the comment with regard to country by country production, as you say we haven't given it this time and we'll take that on board and think about it.

With regard to East Africa, we certainly would have no issue with regard to long lead items; we would be in the position to move forward with a continuous rig programme if that happened to be the rig availability. We have been looking at a number of rig options and I think we're now close to resolving this question moving forward.

In terms of Notus, well I'm not going to give you a dry hole cost because we're halfway down the well. It is correct that we're now looking at a completion of the well in Q3, end of Q3 beginning of Q4. It's an extremely deep, extremely complex well, as we've said before, but at the moment things are going smoothly, if a little slower than we would like.

Brendan Warn, Jefferies

Okay, thanks Chris.

Oswald Clint, Sanford Bernstein

If I could just ask, Chris, if you can share the 1Q over 1Q last year decline in the Egyptian volumes, if you could be specific on that please?

Then secondly, on your comments on Sagitário and Iara with the activity in the first quarter, can you maybe talk a bit more about that in terms of your expectations. These wells - they did come in better, but are you going to talk about volumes on both of these prospects at some stage, or even what's the timeline for future developments? Thank you.

Chris Finlayson, Chief Executive

Okay, in terms of Egypt volumes, what I would say is that we produced in the quarter ten LNG cargoes out of Egypt, which was in line with our plan. And perhaps to just maybe answer a few other more generic Egypt questions at the same time, I'll give you a bit of a background of our view on the situation in Egypt.

As I said in the script, we worry of course ourselves about the macroeconomic and political situation and what the impacts of that will be. On balance at the moment the government is meeting its obligations and we are moving forward with development. But of course we keep an extremely careful eye on that as we go forward.

Roughly half the gas production goes to the domestic market, roughly half goes to export from WDDM, and whilst there is some seasonal variability allowed within that, within the agreement, as I say so far the government has stuck to its agreements and we have reduced the debt $100m during the year.

We do expect that the contracts will be honoured, given that all forecast receivables should be current by 2017 and we have engaged at the highest level of government on that.

So we're monitoring the situation closely, we engage with stakeholders, and perhaps most importantly I would say that the 2013 guidance for Group production and for LNG operating profit remains unchanged.

Turning to your Brazil question, thank you for asking it, because it's an opportunity to get a degree of my excitement over what's going on over at Iara out into a more public domain. We've always been very optimistic about Iara, it is a huge resource, it has a scope close to that of Lula, but to my mind has always been very much neglected and undervalued in the market.

We're drilling one well at the moment which is coming in with better than expected drilling results, so that's good news. And we have two more appraisal wells coming up next year, one in an un-appraised area of the field and then the second well, Iara 6, which will be a high angle, extended well test where we'll do acid fracking to test whether we can, as we believe we can, get similar production rates from Iara, as we see in the other fields in the pre-salt, in the Santos Basin.

So I'm really excited about those projects looking forward. We've got very good alignment with Petrobras on this now. And I would say that what we have at the moment is really a holder for the future development of Iara, because this is a massive and under-appraised field where we have a lot of work still to do.

In terms of Sagitário, this is essentially the last exploration prospect remaining in our existing acreage. We found a reservoir and oil as expected, we found shows that have gone quite deep, we have set intermediate casing, which is why it has taken some time to drill the reservoir section and we are now drilling ahead for the next few days to try and determine the length of the column.

That of course would be the first well on the field, development would be a number of years away, as we would then need to look and see what we needed to do in terms of a future appraisal programme.

Oswald Clint, Sanford Bernstein

That's great Chris, thank you.

Theepan Jothilingam, Nomura International

Good afternoon gentlemen, thanks for taking the questions. Just coming back to volume guidance for 2013, now that we've seen three months production and also Elgin/Franklin up and running, I was just wanting to know where you thought the biggest swing factors are in that range of 630 000 to 660 000 boe per day?

The second question, I think Den mentioned that you saw the unwinding of losses on LNG hedging being offset by lower profitability into Chile, I was just wanting to know whether you can quantify that or not?

And my final question is just coming back to Brazil, Chris, you mentioned that two of the buoyancy vessels have arrived, can you just talk about why it takes so long to get the risers hooked up for Q4, coming back to my first question, is there a possibility you get an earlier hook up to the buoyancy vessels or not in Brazil? Thank you.

Chris Finlayson, Chief Executive

Okay, thanks Theepan, so with the first question about what are the main factors in our range going forward, clearly it is the completion on time of the remaining milestones that we have during the year. It is bringing back from the major shutdowns that we highlighted in Kazakhstan and also in the UK sector later in the year, that we deliver those on time and on budget.

And it is also the rate at which the operator, Total manages to increase the flow rates from Elgin/Franklin, the assumptions that they are making, which is something that is still - they are working internally and still need to share with us non-operated partners on that field. So those I'd probably highlight as the major uncertainties going forward. That said we retain our guidance of 630 000 to 660 000 boe per day with the portfolio that we had at the start of the year.

Going to leave Den to answer the question on LNG guidance, but turning to your question on Brazil and the buoyancy supported risers; maybe what we'll do is we'll add a picture to the ones that we're putting on the web now to show you what these buoys look like. These are massive structures which are essentially suspended by positive buoyancy some 600 feet below the sea surface. Steel catenary risers are used to link those to the wellheads and then flexible jumpers go across from there to the vessels.

They are unique at this size and scale in the industry, so clearly Petrobras as operator is being relatively cautious about the likely installations times, but we are in agreement with them on that and we think that these times are reasonable 50/50s given the fact that we are putting first time technology in place. I'll ask Den to answer the LNG question.

Den Jones, Interim Chief Financial Officer

Hi Theepan, on LNG I can't give you amounts, but you see at the back we delivered ten cargoes through Chile, as we did last quarter and this is the first quarter where you've full impact of the re-adjustments on the Chile price come through.

And on the hedging, whilst last year we were substantially hedged this year, as we've said before, we're substantially un-hedged, although there is a proportion of that that comes through the remainder of this year and then we become un-hedged after Q1 next year. So there's a kind of counterbalancing there, but I'm not going to give you full amounts, but you know full year guidance remains at the $2.5 billion to $2.7 billion. We've had a great start and the phasing will come through in the rest of the year.

Theepan Jothilingam, Nomura International

Okay, thank you.

Thomas Adolff, Credit Suisse

Good afternoon and thanks for taking my questions. My question is around Tanzania, Egypt and Australia. A really quick one on Tanzania and on the rig count, I mean in essence if you think about the size of the acreage and the prospectivity you have there, shall we not be really thinking about potentially two rigs rather than one rig?

And on Egypt, I think you sanctioned phase 9a and I was wondering as part of that are you putting more money into work, or do you have some form of guarantee of LNG exports, i.e. no further diversion to the domestic market? I'm asking this because of what we're seeing at the Damietta plant.

And finally just on Australia, you re-iterate your capex to first LNG, but I was just wondering how we should actually think about potentially higher costs from the changing legislation on the back of community concerns? And I'm referring here to what we've seen with Origin recently, which increased capex for additional water costs, or around issues such as disposal of brine and fugitive emissions. Thank you.

Chris Finlayson, Chief Executive

Thank you, so three questions there, I think the first one is quite a simple one to answer, I mean the Deep Sea Metro, our rig in Tanzania, has given us exceptional well performance. We have continually increased the pace of exploration and appraisal and now well testing using that rig. It's been an outstanding performer. So we actually don't see the need for a second rig.

We have several more prospects that we have drill ready, but we would be able to absolutely keep up with the pace at which we can generate prospects with the rig resources that we have available. So no we're not looking at a second rig.

Turning to Egypt, I cannot discuss with you the details of any commercial arrangements that we have made with the Egyptian government, but I would point out to you that the situation between Damietta and the ELNG plant are different in several ways.

Firstly the Damietta plant has always been fed from the grid rather than having dedicated fields flowing directly into the plant, which we have at ELNG. And secondly the physical set up of the equipment in ELNG means that it is not physically possible to divert all volumes from ELNG direct to the domestic grid. So the situations are not directly comparable.

In terms of Australia, we reiterate and we keep reiterating that we believe we will deliver our Phase 1 costs - that's costs to the end of 2014 within the previously announced budget. I think people forget as time moves on and other information comes out that we did declare the cost increase, perhaps before others have done, but the fact that others have declared a cost increase in the last few months does not mean that we have another cost increase to declare. We believe we will deliver within that.

You talk about some of the factors perhaps pushing costs upwards, I would remind you that as you'll be aware in Queensland the mining boom has turned to a mining slump and we see a lot of the resources that we need in the contracting sector, which are civil contracting resources, relatively low tech pipelining resources coming free from mining projects and that actually is countering any upward pressure.

So I think the Australian market is slightly bifurcating and the cost pressures that you've seen in the last few weeks being talked about, offshore Western Australia, does not reflect that coal seam gas market in Queensland, where as you say, there are still challenges, but at the same time there are other areas where we're seeing cost pressures definitely easing.

Thomas Adolff, Credit Suisse

Perfect, just a quick follow up on Australia again. Obviously you have approval for 6 000 wells and that should cover T1 and T2, but I was wondering whether it's kind of getting trickier to get environmental approval for new projects and expansion and I'm thinking about T3?

Chris Finlayson, Chief Executive

Yes, well all that has happened on the approval front in the last few months has been this insertion of a layer of federal approval for water use as part of the overall environmental management plan. And you might have seen a speech that our Chairman of Australia, Cath Tanna gave last week to the American Chamber in Brisbane, at which she emphasised that this was a poorly thought through piece of legislation since it only applied to the coal seam gas and mining industries which use 4% of water as opposed to the 50% of water that is used by agriculture. And there was actually a very positive reaction coming to that from the political establishment.

It's not through the Australian congress yet; we'll see whether it gets through before the elections are called. But at the same time we see it as being an irritation as opposed to something that will fundamentally change the costs or economics of the project going forward.

What will determine when we're ready to take a decision on Train 3 is when we have completed our ongoing appraisal activities in the different plays that we're working in Australia and are absolutely sure that we have a resource base that allows us to move forward with it.

Thomas Adolff, Credit Suisse

Perfect, thank you very much.

Jon Rigby, UBS

Three quick questions please. The first is on Chile. I think there was some discussion last year that with the shortfalls in Egypt then you may be able to cross-attach the two and effectively not deliver your full contractual volumes to Chile because you had a shortfall on your supply side. And I just wonder where you are with that, should we be assuming that you will fulfil your entire contract volumes into Chile when we do our modelling? And whether there are any workarounds in that?

Second is you refer to the disposal in the US of non-core property, so it kind of prompts that question I guess - where we are and where you stand on the US at the moment and what you are seeing in terms of your expectations on gas production over the next couple of years please, and maybe where we are sequentially at the moment?

Then just thirdly, and this is not expressing any dissatisfaction with Den's performance, but are you able to give us some kind of indication of when you would expect to be making a formal appointment of a long term CFO? Thanks.

Chris Finlayson, Chief Executive

Okay, so for the first question, no I'm afraid we're not going to give you the details of the commercial discussions around supply contracts into Chile. We just highlight the fact that we've reiterated our LNG guidance for the year.

On where we are in the US - here's where you do start to stray into territory that we're going to talk about on the 14th. The comment we made, actually at the year end remains true, that we see the US as a resource where we have a tremendous amount of flexibility in terms of our pace of development. We cut down from well over 30 rigs, down to four, when the price went down as it did at the pits to $2.80 per mmbtu. As of last week we were back up to $4.50 per mmbtu or so.

One thing is clear - that we're not going to do anything which looks anything like a fire sale. The sale of non-core assets was of a very large number of very old, low producing wells, which it made tremendous sense for us to get off our books and to avoid the need to look at asset integrity issues which might arise across such a large well fleet.

So it does not give you a direction of travel for the Lower 48, for us it was a sensible small divestment to make and we'll be talking more about our longer term strategy, which obviously includes what we're going to do in the Lower 48 on May 14th.

Jon Rigby, UBS

Just as a follow up and to echo a number of other comments that have been made, I guess when you've got the degree of flexibility you have in businesses like the US, is having some sort of regional or country production reporting on a quarterly basis would be quite useful.

Chris Finlayson, Chief Executive

Noted.

Jon Rigby, UBS

Thanks. And the CFO, are we going to see one before the end of the year?

Chris Finlayson, Chief Executive

Yes, we are moving forward with the process and certainly before the end of the year you will see one.

Jon Rigby, UBS

Thank you.

Michele Della Vigna, Goldman Sachs

Good afternoon, thank you for taking my questions. Two if I may, first of all I was wondering if you could quantify the impact of the maintenance activity you expect in Q2 and in Q3? And secondly I was wondering when you expect closing the deal with CNOOC and what are still the key regulatory hurdles waiting there? Thank you.

Chris Finlayson, Chief Executive

Okay, we don't break out individually the impacts of every shutdown it would make the data very complex and would keep our IR people constantly engaged in asking questions around what does this figure mean and what does that figure mean? So I'm afraid not, no.

In terms of the CNOOC deal, I think that I can say that we are extremely close to signature of the fully termed agreements and that what will then be required is essentially clearance from the Australian government and from the Chinese government, both of which look to be very favourably disposed towards the deal.

Michele Della Vigna, Goldman Sachs

Thanks.

Irene Himona, Société Générale

Good afternoon, thank you. Most of my questions have been answered; I just had two quick ones please. Firstly, is there any guidance you can provide on full year Group tax rate? And secondly, are you prepared to tell us what your share of production was in Q1 in two areas, Karachaganak and in the US? Thank you.

Den Jones, Interim Chief Financial Officer

Okay, on the tax our full year effective rate is 44%, that's what we said at Q4.

Chris Finlayson, Chief Executive

That remains unchanged. Your second question comes back to the same one about area splits and I undertook at the start that we'd go away and think about if we were prepared to say anything further on that.

Irene Himona, Société Générale

Okay, thank you.

Michael Alsford, Citigroup

Hi, good afternoon. Just a quick question on the UK. I know you touched a little bit on Elgin/Franklin, but maybe if we take a step back and look at the UK as a whole, one of the things you set out at the fourth quarter results was improving production efficiency in that area. Could you maybe talk a little bit about the target you have year on year in terms of incremental volumes that you want to add within the UK from improvements you want to do with these assets, or look at a percentage improvement that you're trying to deliver and how that's going? Thank you.

Chris Finlayson, Chief Executive

Yes, I think the important thing to note and I think we did talk about this, certainly in the Q&A around Q4 is that the first important thing to say is that we are doing all our safety critical maintenance on our operated platforms that we need to do in the UK. But because of essentially bed limitations, these are early '90s platforms, with small living quarters onboard, we have been constrained in doing the type of work we'd like to do to raise production efficiency. That will be resolved, but not until next year, because that's when we could source the flotels we needed for both Lomond and Everest to get them alongside and to carry out a lot of this work.

So we are constrained in the amount of work we can liquidate to improve operating performance. That said, we have seen better operating performance this year than last year, in particular as you, I'm sure will have been aware from other sources, on the Buzzard field, which is still our largest single contributor in the North Sea and where there has been a very significant improvement so far this year over performance last year.

Michael Alsford, Citigroup

Thank you and let me just have a quick follow up, just on the capex, the run rate is a little bit lower than guidance. I'm assuming that will be a catch up in the second half of the year. Is that correct?

Den Jones, Interim Chief Financial Officer

Yes, that's right; we're still catching up in Q2, and Q3 and Q4. So yes, we're still happy with our $12 billion guidance for the full year of cash capex.

Michael Alsford, Citigroup

Perfect, thank you very much.

Lucas Herrmann, Deutsche Bank

Chris and Den, good afternoon. Thanks for the opportunity; a couple of quick questions if I might. Firstly, can you just lay down what the milestones that we should expect to see around Australia are now for the rest of the year?

And secondly, going back to the comments you made about Egypt and that certain volumes of gas can't be diverted; can you give us an indication of the proportion of gas that can't be diverted? And also, are both trains running, or given the volumes coming out, it seems as though the volume of LNG released is equivalent to one train, so is one now sitting idle, or do you run the two of them at much lower utilisation rates? Thank you.

Chris Finlayson, Chief Executive

A couple of questions there, the first one - very easy to answer, if you look at the presentation which IR have put up online, slide number seven will give you the detailed guidelines for 2013 and 2014 for QCLNG. So I think you'll find all the information you need to answer your question in that slide, it's on a quarter by quarter basis.

Lucas Herrmann, Deutsche Bank

Thanks.

Chris Finlayson, Chief Executive

With regard to Egypt, as I said, not all volumes can be diverted; there is a constraint on what the export infrastructure can take. I'm not going to tell you exactly what those figures are, but I can tell you that at the moment roughly half the gas goes to LNG and roughly half goes to the domestic - that's over the first quarter figures.

Lucas Herrmann, Deutsche Bank

But Chris, you can't indicate whether the gas that goes into plant, whether any of that is divertible or not?

Chris Finlayson, Chief Executive

Clearly there is variability; there always has been variability from season to season, so yes, some of it is divertible, but not all of it.

To your last question, yes one train has been shut down so the plant is working on one train at the moment.*

Lucas Herrmann, Deutsche Bank

Okay, many thanks.

* Clarification: Both trains are operating, but at reduced capacity

Fred Lucas, JP Morgan

Thank you guys, a question on the LNG guidance, when you gave the $2.5 billion to $2.7 billion guidance I think it was premised upon conditions prevailing when you gave the guidance, since which time Henry Hub is up and the oil price is down, so I wondered where you've got the slack to hold the guidance for the year?

And the second question is around Australia, I hear what you say about catching up on the number of wells drilled, but what can you say about the quality of the well results you're seeing, are they deviating at all from your expectations? I understand there can be quite a wide spread of well results there. And can you say anything at all about discussions you're having with Shell, I see today that they looked to abandon the standalone Arrow LNG project are in discussions with you and the two other CBM to LNG project sponsors. Anything you can say there would be interesting. Thank you.

Den Jones, Interim Chief Financial Officer

Thank you Fred, I'll take the LNG question. When we gave the guidance of $2.5 billion to $2.7 billion, the conditions at the time were an oil price of $108 per barrel and a Henry Hub of $3.40 per mmbtu. Obviously the spread has shortened in the meantime.

But as we look forward, we still believe that we will be in the range of $2.5 billion to $2.7 billion, given the flexibility from our four legacy supply contracts giving us the destinational flexibility that will deliver the range of values we think we'll get. So we're confident about the $2.5 billion to $2.7 billion.

Chris Finlayson, Chief Executive

And to the second question with regard to Australia and well results, I think it's interesting coming back for a minute to general progress. I think we've all had a lot of focus on wells and would we get enough wells drilled in time for start-up and I would recommend that we'll start worrying about something else. You know we are drilling the wells at a rate higher than we need to do to deliver them for start-up, we may even look at reducing our level of rig resource because the drilling process is getting so effective.

We clearly need to connect those wells up, but I'm pleased to say that that is also now ramping up very fast and I'm confident that we will deliver on that as well. So I feel that we can take the availability of wells off the critical path.

The productivity of those wells, as you know we work to a type curve, some wells are better than the type curve and some wells are worse than the type curve. As we build our well stock we are seeing that distribution reinforced, so we are not seeing substantially worse results, or substantially better results overall. So we're not changing our guidance there about the number of wells that we need.

Fred Lucas, JP Morgan

Great, thanks. And any comment on discussion with Shell about processing their gas?

Chris Finlayson, Chief Executive

No.

Fred Lucas, JP Morgan

Fair enough, thanks Chris.

Rahim Karim, Barclays Capital

Good afternoon gents, three questions if I may. The first on the gas pricing in particular; the international gas price was a bit weaker than I had expected. If you could provide any colour on that that would be useful.

The second question, is around production guidance, because you talked about it reflecting the portfolio at the beginning of the year. If you could just help us understand what are the impacts of divestments. You've articulated the Cotton Valley one, but Australia, do you see there being enough slack in the 630 000 to 660 000 boe per day to absorb these divestments, or shall we expect that range to move down as those deals complete?

And then the third was just to go back to DD&A; Den, you reiterated guidance for $10.50 to $11.00 per boe. The first quarter was above the top end of that range, and with new start-ups during the course of the year ahead expected, an upward trajectory in that number. So any colour on that would also be appreciated. Thank you.

Den Jones, Interim Chief Financial Officer

Okay, on the DD&A we still believe our full year guidance is appropriate. We're just slightly above in the first quarter, but for the full year we still believe we'll be within our guidance range.

On the pricing you mentioned, no real further colour to add. As you point out, the international gas price is actually above where we were last year, but just slightly below the fourth quarter last year so no real colour more to add to that really.

Chris Finlayson, Chief Executive

I always want to make clear that we caveat a range, that it is with the current portfolio, because I don't want to be giving people the false impression that you can go out and if you were to do a significant deal that somehow that doesn't impact on production. But to your specific point about Australia - there would be no impact of completing the CNOOC deal on the production outlook for the year.

Rahim Karim, Barclays Capital

Thank you very much.

Jason Gammel, Macquarie

Thank you, I really just have a couple of follow up questions to some things that were previously talked about. The first is on QCLNG. You mentioned, Chris, that drilling is off the critical path, most of the most difficult engineering feats have been completed. Can you talk about what is critical path at this point? Is it water handling, central compression, etc., in the field? Is it the knitting together the modules for the downstream, or is it something else I'm missing?

Second question is on Iara and what is apparently a lower recovery factor than you have with Lula. Can you talk a little bit about why the reservoir would have that lower overall deliverability? Is this an issue of permeability? Is it reservoir continuity? And I suppose really, does that mean that high angle drilling and completions could begin to solve some of those issues?

Chris Finlayson, Chief Executive

Okay, on the question of Queensland and that defines the critical path, we are making really good progress with all elements of the project. So I certainly don't see progress on the island as being on the critical path, I think that will be delivered. Why we were so strongly highlighting the crossing of the narrows, was that that had for some time been seen as both the biggest engineering challenge and environmental challenge, with the possibility of having to work with the team when we were pulling these, dredging across the narrows. And that proved to be much easier than we expected. We got that in place and that took a real concern that I had off the critical path.

If you look at the upstream part of the project, once you've drilled the well you've got to gather it, the gathering is now really gathering pace, and we think that that will be fine.

The headers for collecting gas are also moving ahead very well, the new flow station, the new generation of flow stations and gas compression, there's a lot ongoing. They're all rising out of the ground as we speak, they're relatively technically simple, we just need to get through the bulk work in time with our plan.

Two small plants are on stream and operating at capacity already. The major Kenya water treatment plant is in the final stages of commissioning and we're in the process of selecting an operator for that plant and we anticipate that that will be on stream in I think Q3, which is in time with when we require it.

Which sort of leads me to what will probably end up as defining the critical path, which is completion of the pipeline because we have many creek, road and rail crossings still to complete on there. It's really the one single point: if one joint is out of the pipeline you haven't got an export route. So I think that that will probably in the end be the critical path.

But that is on schedule for completion before year's end at the moment. As we said at Q4, our target is gas on the island around year end to start commissioning of the plant, which in itself is a major project starting with the commissioning of the power generation.

Jason Gammel, Macquarie

Iara?

Chris Finlayson, Chief Executive

As I said in the first question, I think Iara is actually a very good news story that's coming through there. Iara always assumed, both in Petrobras' figures and in our figures that we've put out to the market before, a significantly lower recovery factor because porosity, and to a greater extent permeability, were lower in this field.

Now the reasons why they are is essentially due to the depth of deposition of the carbonates which is remarkably sensitive to water depth at the time they were deposited, and a change in depth of what was a huge lagoon at the time, of 80 centimetres which makes a significant difference to the vertical permeability within the reservoir.

So I think there was for quite some time a degree of concern about how economic was Iara going to be. What would the ultimate recovery be coming from there? And the message that I'm trying to get out now is that the activities that we have ongoing this year and planned for next year, we think will significantly de-risk this and allow us, and through us the markets, to see the value in what is a giant field.

Jason Gammel, Macquarie

Okay, that's very helpful. Any comments on why an acid frack is the first step? Do you think hydraulic fracking at some point would be feasible there?

Chris Finlayson, Chief Executive

I think it would be, but then acid frack because it's carbonate, so it's the most effective.

Jason Gammel, Macquarie

Okay, thanks.

Alejandro Demichelis, Exane BNP Paribas

Good afternoon guys, a couple of questions here. In terms of cash flow, we have seen the working capital helping you here in this quarter. Maybe you can give us some indication of how you see that evolving over the course of the year?

And the second question is, the credit rating agencies have put you on a negative watch for some time now. Are you expecting to engage with them getting closer to 14th of May, or has that kind of conversation started already?

Den Jones, Interim Chief Financial Officer

Okay, the cash flow obviously benefited from working capital improvements and some of that's just on the receivable balance and some of that is actually the reduction in the domestic receivables from Egypt.

As we see the cash flow coming through in the rest of the year, obviously we're going through high capital intensity this year of $12 billion in capex going out. But we've diversified our funding sources across the last year or so, with the issue of hybrids, talking to the export credit agencies, etc. So we've got $4 billion in the bank on the balance sheet, we're very happy with where we are on funding.

Regarding the credit rating agencies, we spoke to them last year, as you correctly said most of them, or all of them, put us on negative watch or outlook in Q4 of last year, or after Q3 and we're talking to them as we go through the whole process, up to the strategy presentation and indeed after the strategy presentation as well.

So we maintain a long term commitment to a mid-single A rating and you look at what we've achieved over the year through the portfolio rationalisation, etc. and we're pretty comfortable.

Alejandro Demichelis, Exane BNP Paribas

So the commitment to the mid-signal A, that is still where you want to be, yes?

Den Jones, Interim Chief Financial Officer

Yes, we have a long term commitment to single A rating, yes.

Alejandro Demichelis, Exane BNP Paribas

Okay, that's very clear, thank you.

Andrew Whittock, Liberum

Yes, good afternoon, a couple of questions left I'm afraid. You've given us some detail on West Delta Deep Phase 9a; I wonder if you could tell us what the capital cost of that's going to be over the next two years? And secondly, is it possible to provide us with the segmental analysis, in note three, by quarter for 2012, but consistent, definitionally with the numbers that you've just reported for Q1 2013, consistent for the various changes in accounting disclosures?

Den Jones, Interim Chief Financial Officer

I think that's on the website if you want to have a look.

Andrew Whittock, Liberum

And the question on Phase 9a?

Chris Finlayson, Chief Executive

Well the question on Phase 9a, I don't think we disclose the cost of the individual projects, clearly we're funding 50% of it and Petronas are funding the other 50% and the spend is phased over 2013 and 2014. So it's not of itself a significant proportion of the total capital spend, at the Group level.

Den Jones, Interim Chief Financial Officer

On a net basis.

Chris Finlayson, Chief Executive

On a net basis, indeed.

Andrew Whittock, Liberum

Right. Okay, thanks very much.

Jason Kenney, Santander

Hi, Chris. Usually you get asked these questions after 100 days, but I'm going to ask you after 122 days in the job, if there's anything that stands out as particularly positive versus your expectations prior to stepping into the Chief Executive shoes on January the 1st this year?

And then secondly, I'm also interested to hear your views on the share price performance year to date 2013. Obviously, moving from an oversold level at the start of the year, but then the share prices dissipated of late today. I'm just trying to get a feel on how important you think the strategy day on 14th of May will be to clarifying value delivery and also clarifying the value upside, going forward?

Chris Finlayson, Chief Executive

Interesting questions there. I'll tell you my thoughts on what I think is great about this company, not after 122 days, but if I do my sums right after about 134 days, i.e. on the 14th of May, because that obviously is very much a part of the strategy.

I'm not going to comment on my view of what has moved the share price in the course of the year, I will just say that we hope that our strategy presentation will make it clear to the market what we believe should drive our share price.

Jason Kenney, Santander

Fair enough.

Chris Finlayson – Chief Executive

I'd just like to finalise it by thanking everyone for their questions. I just want to finish by reiterating our main points today. I think we have made a good start to the year, we've delivered the milestones that we promised in the first quarter and our results were in line with expectations and guidance.

Our major growth projects in Australia and Brazil are on schedule and on budget and we've also made good progress in de-risking the rest of the milestones for the rest of the year. But we're not complacent at all, there's still much more to accomplish, it's been an encouraging start to the year.

So I'd like to thank you all for your time today and also of course for the excellent questions. And I look forward to seeing you all in person on May the 14th when I and Den will be presenting our longer term strategy in detail at the BAFTA Theatre, 195 Piccadilly. So thank you and goodbye.