BG Group

2013 Fourth Quarter and Full Year Guidance Update

27 January 2014

Chris Finlayson, Chief Executive, BG Group

Good morning, thank you for joining us this morning at short notice and I'm here with Simon Lowth, our new Chief Financial Officer.

As you know, we will report fourth quarter and full year results on the 4th of February and, as you'll have seen from the announcement this morning, we expect to announce a solid set of results for 2013, in line with guidance and our milestone commitments.

Business performance earnings are expected to be flat at approximately $4.4 billion. However, we've also updated the market this morning on a number of ongoing issues. The operating climate in Egypt has worsened, with gas continuing to be diverted from ELNG to the domestic market. This has led us to issue force majeure to buyers and ELNG lenders today.

2013 results will include non-cash post-tax impairments of around $1.3 billion in Egypt, due to the challenging operating environment, and around $1.1 billion in the United States, due to lower forward gas prices, coupled with lower production profiles in both countries. Therefore, total results are expected to be down approximately 33% at $2.2 billion.

Despite the good progress made in 2013, we face short term issues and I'm disappointed with the business performance metrics for 2014 we've had to announce. Year on year decline in Egypt and the US are the drivers of volume decline from 2013 to 2014 with the rest of the base portfolio broadly flat. The contribution from our key growth projects in Brazil and Australia, which remain on budget and schedule, is increasing. But the growing asset base and higher royalties, combined with the decline in production, are leading to higher unit operating costs in 2014.

I'd stress that our long term strategy remains unchanged: our capital expenditure level will decline and we continue to expect to be free cash flow positive in 2015.

Let me outline the factors behind this morning's announcement before we take your questions. In this morning's announcement we've provided the expected changes in 2014 production compared to 2013 outturn. You'll recall that in September we updated the market on project delays in Egypt and Norway and lower levels of US shale gas drilling.

Let me tell you what's changed: since then the operating climate in Egypt has deteriorated further, impacting volumes for 2014. The revised pooling arrangements put in place for 2013 have not been honoured and domestic diversions are currently around 1 bcf of gas per day, close to the system capacity. As a result BG Group has been unable to meet in full its obligations to deliver gas to Egyptian LNG and, as I've mentioned, we have served force majeure notices under our LNG agreements this morning.

In Brazil, FPSOs 2 and 3 will continue to ramp up, following the delays to the installation of buoyancy supported risers. The operator expects to install FPSOs 4 and 5 in the second half of the year.

In Australia, the QC LNG project is on track for first LNG in the fourth quarter, with the second train expected to come on-stream around six months later.

In the UK, Jasmine is ramping up, but slower than expected and we now expect a longer planned shutdown at Buzzard.

Whilst in Trinidad and Tobago, expected PSC production entailment has reduced due to the higher realised prices in 2013.

Given all these developments, our Group 2014 production volumes are expected to be lower than current market expectations and in the range of 590,000 to 630,000 barrels of oil equivalent per day. Now of that about 480,000 to 520,000 barrels a day will come from our base assets.

On costs in 2014, unit operating expenditure is expected to be in the range of $15.50 to $16.25 per boe, up from the $12.17 per boe expected to be reported for 2013 full year upstream results. This reflects the impact of increasing production from royalty paying fields in Brazil and Bolivia, declining volumes in Egypt, flotel campaigns in the North Sea to complete the enhanced asset integrity programme and the impact of the ramp up and expensing of additional facilities in Australia and Brazil, ahead of achieving plateau production.

Our unit depreciation charge is also expected to increase from the expected outturn of $11.29 per boe in 2013 to between $12.25 and $13.00 per boe, reflecting the new asset base coming on-stream.

In LNG shipping and marketing, total operating profit for 2014 at our reference conditions is expected to be in the range of $2.1 billion to $2.4 billion. This reflects lower supply volumes from Egypt, coupled with reference conditions which are lower than our realised prices in 2013. There is considerable uncertainty over the number of LNG cargoes that Egyptian LNG will produce in 2014.

Looking ahead to 2015, based on the production volume range for 2014 we now expect production for 2015 to be in the range of 710,000 to 750,000 of barrel oil equivalent per day, excluding any portfolio changes we may make. This outlook includes expected PSC reductions in Kazakhstan and expected production growth will be driven primarily by Brazil and Australia.

In 2015, BG Group expects similar dynamics in its LNG Shipping and Marketing business as outlined for 2014, combined with the impact of gas development programmes in Equatorial Guinea, which require planned shutdowns at Equatorial Guinea LNG.

The fundamentals of the strategy we announced in May remain very much in place. We remain focused on delivering long term value and continue to expect to be free cash flow positive in 2015.

Now Simon and I will be happy to take your questions.

Theepan Jothilingam, Nomura International
Hi, good morning gentlemen, three questions please. Firstly just on the balance sheet and on the write-downs you've taken in Egypt and the US can you just perhaps tell us what's left in terms of an asset carryover for Egypt and the US?

Secondly, just if you could elaborate a little bit on why the ramp up at Jasmine is slower? And thirdly I'd like to focus on the movements in 2015. Could you perhaps give us a view on what you think the base portfolio is capable of in 2015, I think the previous guidance was 530 to 580?

And then perhaps also give me a delta for the reduction in the PSC for Kazakhstan? Thank you.

Chris Finlayson, Chief Executive, BG Group

Thank you Theepan, the financial questions Simon is preparing to answer, I will talk to the Jasmine ramp up. This is something that is ongoing as we speak, the field came on stream as we declared in late November, and there have been essentially two operational incidents since then. One in which the cooling medium got contaminated and needed to be changed out and secondly in problems with the commissioning of the flash gas compressor.

That has meant that we have not been able to bring all the available wells on-stream yet, we anticipate these issues being resolved within the next few weeks, but because it is a high net BG producer it has a noticeable impact on our volumes for this year. So these are transitional issues which will be resolved before the end of the first quarter, but are significant in terms of their impact.

Simon will now answer the question on the balance sheet.

Simon Lowth, Chief Financial Officer, BG Group

Yes, Theepan, thanks very much indeed for the question. Firstly on Egypt, you'll recall that at Q3 we had described Egypt's contribution to the Group in terms of its production, earnings and net assets. From the circa 12% of Group net assets at the time, that give you an ability to dimension the scale then. And you can identify the impairment we've taken in this quarter, which gives you a sense of the remaining carrying value. Lower 48 - the impairment has significantly reduced the carrying value, but we still do have some value left, particularly associated with the Haynesville assets.

Theepan Jothilingam, Nomura International

And then the base and the delta in 2015 please on production?

Chris Finlayson, Chief Executive, BG Group

I'm sorry Theepan; can you repeat the question again?

Theepan Jothilingam, Nomura Securities

Yes, it seems to me a chunk of the issues around production more recently has been about the base. I was just wondering if you could give us your view on where you see 2015?

Chris Finlayson, Chief Executive, BG Group

We see 2015 base production as roughly flat, with actually increased production coming from a number of areas; from the UK and from indeed from Egypt where Phase 9A will come on-stream and that will offset declines in other assets - sorry and also increases in Bolivia.

Theepan Jothilingam, Nomura Securities

And the delta on Karachaganak please - the step down?

Chris Finlayson, Chief Executive, BG Group

This is something that is due to the PSC the structure of the PSC with something called the fairness index and the step down is around 16,000 barrels a day.

Theepan Jothilingam, Nomura Securities

Great, thanks Chris, thanks Simon.

Jon Rigby, UBS

Thank you, thanks for taking my question. Can I ask two questions? The first is a broader question on planning. I think it's fair to say the last two or three years of the company have been scarred by short falls versus planning and guidance. And I think there was some expectation with a clear out at the start of last year that maybe going forward we would have some clearer guidance and guidance that you were more likely to hit. Is there is a problem with the way internally the company is managing information and disseminating that to the market? It would seem to me that there are not that many numbers to be managing, and yet a lot of this, which seems to me at least anticipatable, have not been captured in that process and are there changes taking place there?

Secondly, on your cash flow guidance for 2015, is that cash flow guidance i.e. positive - both positive at the bottom and top end of the capex guidance range that you've given before, I think $8-10 billion? Thanks.

Chris Finlayson, Chief Executive, BG Group

Thank you very much indeed. Clearly a question about planning is inevitable in the context of what we're saying today. I would point out of course that what we announced to the market in January this year we have essentially delivered on, hence the in line expectations there. But the decline in the year out is indeed disappointing.

I think what I would say is that it's not what are we doing, it's what have we done. We have introduced in my first year in the role a much more rigorous outer year planning challenge, which took place in August and September of this year with my personal involvement and this gives me a strong feeling that we will have a much more robust longer term set of numbers as we move out. So we have already addressed the issue that you are picking up there.

Jon Rigby, UBS

Okay, and on the cash flow guidance.

Simon Lowth, Chief Financial Officer, BG Group

Yes let me respond to that one, as we look forward into 2015, the confirmation of cash flow positive in 2015 does indeed extend across the capital range, although clearly you know if we faced different scenarios in terms of pricing, or in terms of the LNG business performance, we'd have more capacity to drive on capital if we were down more towards the lower end of our ranges.

Clearly we've got a lot of discretion in terms of timing and phasing of elements of our capital programme and we'd move towards the lower end in order to manage our cash position. So we can accommodate that range and we'll adjust the capital, partly based upon the progress of projects and opportunities and the attractiveness of those opportunities. But also to ensure that we manage tightly to the cash flow targets we've set for ourselves.

Jon Rigby, UBS

Okay, thanks.

Martijn Rats, Morgan Stanley

Yes good morning, I wanted to ask two questions related to Egypt. In the third quarter there was already the comment that domestic off take from West Delta Deep Marine was high at around one bcf a day and that that corresponded to the technical maximum. And I was wondering what has now changed relative to the third quarter, because the way I remember it was that back then the indication was there's now the maximum amount of gas going into it. And it doesn't seem that that comment has changed all that much, but yet there is less available for LNG export. Is the field now declining faster than initially anticipated, is that really the underlying issue?

And secondly I wanted to ask about the force majeure issue to the lenders. Can you elaborate on what that means in practice?

Chris Finlayson, Chief Executive, BG Group

Thank you Martijn, I'll first handle the first question. In terms of domestic off take, yes indeed we said at Q3 that they were at maximum, essentially the choke going out of the plant. I think we even said at that time that we were seeing in the early weeks of Q4 a decline in that against a renewed statement that they would abide by pooling. That happened through November and the first half of December, and then for reasons that are not entirely clear to us, but appear to be due to short falls elsewhere in the Egyptian gas supply system we saw domestic off take ramping up again so that it essentially from the beginning of this year we are once again at the maximum domestic off take.

As we will move fairly rapidly into the hot season, we see it is no longer prudent to assume that they will reduce their off take from the current maximum level. So whilst there is continuing natural decline in the reservoirs, and we've talked about that before, and that will only be reversed when the wells that we have drilled for Phase 9A come on stream in the third quarter, it's the non-adherence to the 650 mcf per day limit that was stated in the pooling agreement that is really driving the lower volume of LNG availability.

In terms of your second question with regard to the force majeure, the force majeure have been issued clearly to the off takers and that is GDF and BG Gas Marketing and then also not directly to the lenders, but to the processing companies, the train companies, so that clearly will impact on the cash available to lenders.

Martijn Rats, Morgan Stanley
Thank you.

Fred Lucas, JP Morgan
Morning guys, a question on Egypt and I guess a broader question about how you feel about continuing to invest in the country and for that matter retaining the asset exposure you have to that country, given that they've reneged on their agreement with regard to gas pooling, although I see that they have paid a little bit back to you and reduced your receivables. So I'm wondering how you're thinking about forward investment plans in Egypt and indeed your residency in the country going forward?

And a second broader question, perhaps connected to that, about BG's plans on divestments going forward, whether the update today has implications for how you're looking at the broader portfolio and whether or not the performance of these assets is making you reconsider the priorities of divestments in 2014 and 2015? Thank you.

Chris Finlayson, Chief Executive, BG Group
Thank you Fred. I think it's important to remind ourselves the particular state that Egypt finds itself in in a broader perspective at the moment. It is clearly a challenge to get the attention of the Egyptian leadership onto an issue when they have so many other competing claims.

You say that we have reduced our receivables by around $100 million from the beginning of the year to the end of the year. That is correct, but just to put that in context that actually corresponds to a total amount of cash that we have got out of Egypt in the course of the year of close to $1 billion. So this has actually remained a strongly cash flow positive asset for us during 2013. Clearly that will decline in 2014 with this.

But there are many other companies which are making good business in Egypt, even if all their production is being taken in to the domestic market, and if you look at recent Egyptian acreage auctions, there are still a large number of companies who are interested in investing in the country. So we have particular challenges linked to export and domestic demand, but I would not at this stage go straight to the point of saying this is a country where we should no longer be invested.

Clearly to your other point about future investment in Egypt, we will have to reassure ourselves of a sensible route for reimbursement, the correct and appropriate level of guarantees before we take to the Board any further proposal for investment in Egypt.

Fred Lucas, JP Morgan
Thanks, and any considerations around the broader portfolio, perhaps the added urgency on divestments - I'm thinking here about potential dilutions in Australia and of course Brazil?

Chris Finlayson, Chief Executive Officer
Well I'm pleased to say that we don't see ourselves pushed by the events we're announcing today into any undue haste or any consideration for divestments faster or more widely than we were considering before.

We've said very clearly in our strategy that active management of the portfolio is key to this. We have a number of potential portfolio changes currently under investigation and discussion, preparation, but I'm not going to talk about them individually and we are definitely not pushed by today's announcement into having to consider anything either faster or broader than we were considering anyway.

Fred Lucas, JP Morgan
All right, thank you.

Oswald Clint, Sanford Bernstein
It looks like quite a thorough review this morning of production - expectations for this year, could you just talk a little bit therefore about QCLNG, can you give us a lot more? Are you comfortable, confident, what you're seeing with flow rates? I think you've fine-tuned the start up this morning to 4Q rather than the second half of 2014, is that looking like a pretty firm timeline when we think about that project starting up? Thank you.

Chris Finlayson, Chief Executive Officer
You're correct, we have fine-tuned to Q4, that reflects the complex and extended start-up process that we need to go through for the plant. The good news of course is that we have substantially de-risked

this through the completion of the pipeline and the delivery of gas to the island. That process now will start with commissioning of the turbines, for which a relatively low flow rate is required, and then build to around 200 million scf per day in mid year as we commission the compressors and finally when we start making full LNG we will be delivering between 600 million and 700 million scf per day.

We're confident that our upstream development plan is on schedule to meet these demands.

Oswald Clint, Sanford Bernstein

Okay, thank you.

Thomas Adolff, Credit Suisse

Good morning, thanks for taking my questions - three please. Firstly on your LNG guidance for next year of $2.1-2.4 billion, I was wondering whether this assumes more cargoes from Nigeria LNG versus 2013?

The second question is on your 4Q financial results, I was wondering whether you took a write off on the Southern discoveries on BMS-9, i.e. have you relinquished Abare, Abare West, Iguaçu, etc.

And the final question on QCLNG and the ramp up: are you comfortable with the amount of third party gas you have sourced already, or should we expect additional volumes in terms of third party gas purely for the ramp up period? Thank you.

Chris Finlayson, Chief Executive Officer

Thank you Thomas. I think relatively brief answers to these questions. You'll recall that last year, and it's written up in the results, we had a short fall in Nigeria of I think six cargoes due to NLNG declaring FM. So we're not expecting additional cargoes against our contractual amounts, but we are not anticipating a further FM this year.

Oh the BMS-9, yes we have taken Abare, Abare West in the Southern part of the block, yes that is included in the results, because as we say we have relinquished it. And then the third question was around third party gas in QCLNG: we have sourced third party gas that we believe is sufficient for the start-up phase, but as I've said before in calls, if we find opportunities to source attractive third party gas allowing us to defer our own capital expenditure it is clearly something that we will be interested in pursuing.

Thomas Adolff, Credit Suisse

Okay, thank you very much.

Michele Della Vigna, Goldman Sachs

Hi, thank you for taking my questions - two if I may. The first one is I was wondering if you could quantify how much production you expect from the US and Egypt in 2015?

And the second one, going back to the 2013 results, I was wondering if you could comment on cash generation in the fourth quarter and the level of gearing you achieved at the end of the year? Thank you.

Chris Finlayson, Chief Executive Officer

Okay, I'll ask Simon to talk to the cash generation and the gearing at year end first if that's okay.

Simon Lowth, Chief Financial Officer

Yes, thanks. In terms of the cash generation in the fourth quarter, overall we finished in a good position in terms of cash flow. The net cash inflow from operating activities in the fourth quarter was up something like 20%, 25% or so, and then overall for the year cash in flow from operating activities was broadly neutral, slightly down on last year. So you'll recall last year it was about $7.8 billion, slightly down. And we expect to end up the year with you know a rise in terms of cash and cash equivalent and the overall gearing ratio by the end of the year a shade under 25%. Hopefully that gives you answers on that question.

Michele Della Vigna, Goldman Sachs

Thank you.

Chris Finlayson, Chief Executive Officer

And a very brief answer to the other question in terms of 2015 volumes, the US is essentially flat year on year between 14 and 15 and Egypt, because of the coming on stream of Phase 9A towards the third quarter of 14, is about 10,000 barrels a day up in 2015.

Michele Della Vigna, Goldman Sachs

Thank you.

Michael Alsford, Citigroup

Thanks good morning, thanks for taking my questions. Just one actually on Brazil, could you give a bit more colour as to where we are on the installation of the BSRs on both the BMS-9 and 11 and how you see those ramping up during the rest of 2014? That would be helpful, thank you.

Chris Finlayson, Chief Executive Officer

Thank you Michael. I'll go into a little bit of detail on this one because it's such an important driver of production and indeed of volumes. So we have talked previously about the challenges that Petrobras has had over installation. This essentially came from the late delivery of the BSRs from the shipyards in China, which led to their installation over the winter period.

Now the first BSR which arrived around September and October then made two or three trips to and from land because the weather deteriorated to the extent we couldn't actually start installing it and we started installing it eventually towards mid to end November, with a lot of delays due to again weather interference with the installation process.

We got that BSR down below sea level in December and started installing the tethers, further weather interference with that. But from around the beginning of January things have gone much more smoothly, the BSR is now clearly fully installed and we have already attached the first two steel catenary risers to BSR 1, which now only require the control lines and the jumper lines to go across from the BSR to the FPSO.

So the current operator's planning for having these wells on stream is towards the end of January or into early February, so we're pretty close on that one, which will give us, with one more well then to connect later, should take us on FPSO 2 to plateau towards the middle of this year.

For FPSO 3, that is a rather longer process because some of the wells to be connected are less prolific than the ones we have connected already. But in essence the second BSR is at depth and has, the last time I saw two days ago, four of the eight permanent tethers attached. And once that process is complete, which should be a matter of only a couple of weeks I would imagine, then again you'll be into the installation of the steel catenary risers.

So we have suffered a delay there, no question about it, but it is now moving much more smoothly forward and should allow us to connect to these wells and get them on stream.

Michael Alsford, Citigroup

Thank you, and sorry just a quick follow up on the number of wells you need then on the second - or FPSO 3 sorry, what are you thinking to get to plateau?

Chris Finlayson, Chief Executive Officer

We need four wells connected to get to plateau.

Michael Alsford, Citigroup

Four?

Chris Finlayson, Chief Executive Officer

Four additional.

Michael Alsford, Citigroup

Okay, that's great, thank you.

Irene Himona, Société Générale

Good morning, thank you. I have just one question please on the new guidance for unit DD&A and opex in 2014. I understand the increase is due to short term issues, but in the interests of visibility could you give us some guidance, or some indication of what normalised unit opex and DD&A will be from 2015 onwards when the portfolio returns to normal, thank you.

Chris Finlayson, Chief Executive Officer

Okay, let me give an overall setting to that and then I'll ask Simon to come in with some specifics on where we feel we can say anything more.

In terms of the DD&A as a unit of production measure, this is much less impacted by the production downgrade we have made, but really just reflects the addition of new facilities coming on-stream and of course I'm pointing to the three big ones there, clearly Australia, clearly more coming on in Brazil and in Norway and the UK with Knarr and Jasmine. Those account for the increase in the DD&A charge.

If you look at the opex charge and this is probably where we have been furthest from city view so I'd like to talk about it in a little bit more detail. Here we have a number of impacts coming, because our operating charge comprises our lifting charge and our royalties charges coming through that. And the structures of our ventures in Brazil and Bolivia both have a significant level of royalty payments coming through them; so the largest single reason for the rise in operating costs is driven by royalty payments in Brazil and Bolivia. If you add onto that the unit operating cost increases in Egypt due to production decline, those three things taken together take you to about two thirds of the total increase in unit operating costs.

On top of that we have the one-off effects we talked to there of a significant flotel campaign, which we believe will complete our asset integrity upgrade campaign in the North Sea and of course additional opex, again coming from Knarr coming on stream in Norway, which at the leased FPSO also has quite a high operating cost component. Those are the elements that drive that and as I say two thirds of the increase essentially coming through Brazil and Bolivia royalties and Egypt production decline.

Simon Lowth, Chief Financial Officer

And just to add to that, I think that's a clear build-up of the issues that we're experiencing on the unit costs as we move from 13 into 14. And as Chris said we've got the higher mix of heavy royalty bearing production that hits the royalty unit costs and then we've got the step up in terms of the lifting costs particularly in Brazil, Australia and the North Sea, in advance of the ramp up through those assets and then we've got some production declines on the remaining base assets going to broadly a relatively fixed cost base there. And so we do see this step up in opex costs from 13 into 14.

As we look forward, the opex cost impacts from increased proportion of royalty bearing flows in Brazil will remain a feature as we look forward and in addition the assets of Brazil and Australia, the growth assets, tend to have a slightly higher unit cost in the lifting zone than some of our existing base assets. So you know those will be pressures on unit costs as we move forward, as those two parts of the business continue to grow and form an increasingly important part of the mix, although obviously as they start to reach plateau we're going to get much better leverage out of the fixed cost base.

And the final point to say is that those higher unit costs on those assets gets compensated by the value of the assets in terms of the liquids in Brazil and obviously the exports in Australia. And I think my best pointer for you in terms of thinking about that interaction of opex cost and the value of those assets is probably to point you to the views we expressed about the evolution of the production mix by EBITDA margin, cash margin, and as you looked into the 15, 16 period that gives you a sense of how we expect that to play out. But clearly some challenges as we move from 13 into 14.

In terms of the DD&A - I think the pressure's there, you know we can see it hopefully stabilising at a level as we move forward, as we get utilisation out of the new assets coming on stream. So I think less upward pressure on the DD&A costs from here. So hopefully that gives you some pointers.

Irene Himona, Société Générale

Thank you very much.

Anish Kapadia, Tudor, Pickering, Holt

Good morning, I've got three questions please - firstly I just wanted to start on the UK, looking at your actual 2013 numbers they look to me around 35% lower than the original guidance you gave back in

2012. I was just wondering how much of this do you see as an industry impact and how much is a BG specific impact?

The second question was back to Egypt on the Notus well which I believe you're testing at the moment. It seems like this is a very long expensive well, but it could have some positive indications, how do you think about this potentially impacting your Egypt strategy going forward?

And then the final one which is just kind of going back to guidance and just giving some indication on your contracts. I'm just trying to work out if and why you don't give better guidance on the PSCs and the contracts, Kazakhstan has been an issue before and you could have given better guidance going forward, Brazil and Bolivia opex are impacts that shouldn't have been any surprise as they're embedded in the contract. I just want to know what are you going to do about addressing that kind of guidance going forward? Thank you.

Chris Finlayson, Chief Executive Officer

Thanks for that, I haven't got the 2012 figures in front of me here, but I think there are a number of components in the UK. We have had some projects coming on later than planned as I talked about, particularly in terms of Jasmine. There is no question that the UK overall asset availability has declined over the last few years and, although BG has actually been in the upper half of the overall availability, we have certainly seen decline there. And that has been largely driven for us by the need to upgrade integrity in our prime era, that's early 1990s platforms. And we're signalling through this we have a series of flotel campaigns this year which we believe will lead to us being in a much better position with those assets going forward.

We've also of course suffered, let's not forget the impact of the gas leak on Elgin/Franklin which was a very significant producer for us, where although we got the platform back slightly earlier than we had planned it has proved over the course of last year necessary to re-drill more of the wells than we anticipated and that has delayed the production build coming back from Elgin/Franklin so I think those are probably the major drivers.

In terms of Notus, the well is actually currently being finalised, the well is under evaluation, we have positive indications but we are not yet in a position to make an announcement on that. It has been a lengthy and clearly costly well, but on the other hand it's certainly the most difficult exploration well that we've ever drilled as BG and we got that well to TD first time without any safety incidents during its drilling and we will now have to evaluate what part of the future that could form for Egypt indeed.

In terms of PSC guidance, clearly a lot of the terms that exist within the PSCs are confidential and we are unable to share them. But we will take onboard the challenge of how do we try and guide the market better on this.

Anish Kapadia, Tudor, Pickering, Holt

Thank you.

Matthew Yates, BofA Merrill Lynch

Hi good morning, a couple of questions if you don't mind. You've given us a lot of guidance but, just to be greedy, one more: can you be more explicit on the anticipated capex for the Group in 2014?

And the second question, I'd like to come back to Egypt and just follow up with some of the earlier comments. You talked about needing reassurance before you make any future investments beyond Phase 9. Can you just give us some insight should you hold back on the capex what the underlying decline rate of that asset would you anticipate to be?

And then following on, can you say if negotiations with the government about some sort of structural solution to this issue are ongoing, or do you think you will have to wait until after any potential elections to get more clarity on the situation? Thank you.

Chris Finlayson, Chief Executive Officer

Thank you. We're not changing the capex guidance that we gave last year. So there is no update there. In terms of the Egypt situation, as I said we will get additional production coming on stream, irrespective of further investment decisions in the third quarter of this year when Phase 9A starts up. So you will see production increasing in Egypt in the latter part of this year and into next year.

We've always said that decline rates of individual wells in Egypt are relatively high and you need to keep drilling in order to maintain production. So clearly if we do defer significantly further investment decisions that will lead to further decline, but we are only going to make investments where it makes sense to our investors to do so.

In terms of the negotiations with the Egyptian government, I would say that today's events of issuing force majeure actually allows us to get into a more meaningful negotiation with government about future potential outcomes as we have now very clearly served our notice on our customers of the issues that we face.

I think you're right that this is not something that is going to be completely resolved until we have got through the presidential election and have a stronger and longer lasting government in place. But as you may have seen yesterday the date for that election has been actually brought forward, so we would hope to have - let's say a clearer power structure in Egypt relatively quickly.

Matthew Yates, BofA Merrill Lynch

Understood, thanks very much.

Fred Lucas, JP Morgan

Hello guys, thanks for the second chance. A couple of questions, just to try and get to the bottom of the issues on unit opex. It would be very helpful if you could give us guidance on lifting costs for 14 and 15 and then we can try and work out the difference according to our price assumptions for things like royalties. So do you have a couple of numbers for 14 and 15 and a number to compare to in 13 for underlying lifting costs?

And secondly could you make any further comment on underlying base decline, it's quite difficult for us to understand what's going on there because the base involves countries where new assets are coming on stream. So you know if you could strip new fields out what's going to the underlying base decline of existing fields is that getting worse or is it unchanged?

And finally can you give us any clues about your reserve replacement ratio in 2013 we saw quite an encouraging number, or set of numbers from Petrobras regarding their pre-salt reserve recognition, which I thought could have a good read through for you. Can you give us any indication of where that organic reserve replacement figure will be for 2013 please? Thank you.

Chris Finlayson, Chief Executive Officer

Okay fine, I will deal with the decline question and the reserves replacement ratio and then Simon will talk to the issue around lifting costs and opex guidance.

I'll start in terms of reserves replacement ratio, clearly the fact that we have not felt the need to include any guidance in this release today suggests we have no big surprises to report there. We will give the details of that in our release next week. But we would anticipate a good result in this area.

Base decline - the challenge is really not so much around what is the overall rate of decline between fields, as with any other company we have a range of decline rates in different assets, we've talked about the high decline rates that we see in Egypt and we have other assets where there is essentially no decline rate at all, because at the moment and for some years to come the choke is essentially a commercial choke and I quote you Trinidad for that, I quote you Karachaganak for that where in essence in terms of production we are on plateau. We anticipate to remain on plateau, but our entitlement changes depending on the details of the individual PSCs. And as I've said the problem with that is those are commercially confidential, but we take the challenge onboard to see if there is anything more that we can do in terms of guidance coming from that.

In terms of lifting costs I will hand over to Simon.

Simon Lowth, Chief Financial Officer

Fred thanks for the question. I think in terms of the profile moving from 13 into 14, we've disclosed in the past the breakdown of our opex and inter-lifting costs and obviously the residual being predominantly, not exclusively but predominantly royalties. And if one looks at what we'll disclose in terms of the fourth quarter you've got lifting costs running a shade under 60% of opex costs. That sort of ratio clearly will be impacted by the mixture in the course of the year, but relative ratio of lifting costs as a percent of the royalties we don't expect to change materially as we move from '13 into '14, perhaps it may nudge up a little bit.

In terms of guidance sort of beyond 14 I think I addressed that with my earlier remarks about the drivers on our royalty and lifting costs and indeed DD&A. But hopefully that gives you something of a steer in terms of 14.

Fred Lucas, JP Morgan

Simon, what was the average lifting cost in 2013? And just to clarify are you saying for full year 2014 lifting costs will be 60% of your guidance range for unit opex, is that right?

Simon Lowth, Chief Financial Officer

In the full year these are approximate obviously but we'll be able to share this fully when we report our Q4, but you've got lifting costs, I think just a shade over $7 per boe and opex a shade over $12 per boe for 2013 for the full year.

Fred Lucas, JP Morgan

Right.

Chris Finlayson, Chief Executive Officer

Okay, well thank you all very much indeed, we appreciate your time as I said at such short notice and we had a big attendance on the call so we really appreciate that. Thank you very much indeed for the questions. We've hope we've been able to answer them clearly for you and we look forward to meeting many of you at our Q4 and full year results announcement at BAFTA next Tuesday. Thank you very much indeed.