



BG GROUP

Proposed acquisition of QGC

Analyst Presentation
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Chief Executive
BG Group



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Chief Executive

Frank Chapman (55) was appointed Chief Executive in October 2000, having been appointed to the Board of BG plc in February 1997. He joined British Gas plc in November 1996 as Managing Director, Exploration and Production. He is an engineer and has worked in the oil and gas industry for 33 years. Prior to joining the Company, he spent a total of 22 years with Shell and BP.

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Ladies and Gentlemen, Good morning and welcome.

This morning, BG Group announced that it has made, with the recommendation of the QGC Board, an on-market takeover bid for all of the ordinary shares of QGC in Australia.

Today, I want to outline the shape of this transaction and share with you our thoughts on the industrial logic and strategic drivers that underpin the acquisition of QGC.

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For BG Group, this transaction enhances what was an already a powerful global gas strategy. It builds on our existing Australian domestic and export interests, and provides the Group with both material Asia-Pacific resources, and Pacific Basin LNG supply.

BG Group expects the funding of this acquisition to be from the Group's cash reserves, supplemented, as required, by our existing committed facilities.

Now, here's the agenda for today:

Now to the key points of this transaction:

We have made today an unconditional, on-market, all-cash offer of AUD\$5.75 per share which corresponds to a total consideration of around AUD\$5.2 billion for BG to acquire 100 per cent of the enlarged QGC, including Sunshine and Roma

The industrial logic driving this transaction is the *additional* and *material* value created through the combination of BG Group's and QGC's skills and assets, in a single, efficient, integrated organisation, embodied within a one company ownership structure.

QGC shareholders will receive a fair value for their shares, combined with the certainty of cash.

- First, I will take you through some of the details of the transaction.
- Second, we will take a look at QGC – its skills, its assets and objectives.
- Third, we will recap briefly on BG Group's strategy.
- Fourth, I will go through the industrial logic and strategic drivers which underpin this transaction.

And then, at the end we will take your questions.

Now let me begin with the transaction details.

The Boards of BG Group and QGC have announced today their agreement to the terms of a recommended transaction.

BG Group is offering to acquire all the issued shares in QGC at AUD\$5.75 per share, by means of an unconditional, on-market takeover offer on the Australian Securities Exchange.

The offer price is final subject to any superior competing offer.

The offer values QGC's entire issued share capital at around AUD\$5.6 billion, which corresponds to a total consideration of around AUD\$5.2 billion for BG to achieve 100 per cent ownership of QGC. This is equivalent to around £2 billion.

Our offer represents a full and fair price for QGC shareholders. It provides a risk-free cash premium of 80 per cent to Thursday's closing price, and a 34 per cent premium to the 90 day VWAP, and this is in line with the average long-run historic premium in the Australian market.

The QGC Board recommends that shareholders accept BG Group's offer.

Now let me summarise for you the progress that BG is making in building its stake in QGC.

First, BG's pre-existing stake in QGC amounted to some 8.7 per cent.

Further to this, BG Group has entered into pre-bid agreements and has acquired a further 8.3 per cent from QGC's two largest institutional shareholders, Sentient and ANZIS, and from QGC's Managing Director, Richard Cottee, as well as certain shares held by QGC Chairman, Robert Bryan.

Therefore, BG held 17.1 per cent of QGC's share capital at the start of trading in Australia today.

In addition, QGC Directors have indicated their intention to accept BG Group's offer in respect of a further 7.1 per cent of QGC shares held by them.

QGC's largest shareholder, AGL, has also indicated its intention to accept the offer in respect of its 22 per cent shareholding. I will return to the AGL deal in just a moment.

In summary therefore, BG Group's shareholding, together with notifications of intention to accept our offer, amount in aggregate to 46.2 per cent of QGC's share capital at the beginning of trading in Australia this morning.

Now, during the trading day we acquired a further 10.9 per cent of QGC shares on market and therefore BG now holds a 28 per cent stake.

Adding the notifications of intention to accept would raise this stake up to around 57 per cent.

As I mentioned, AGL currently holds 22 per cent of QGC's shares and intends to sell all these shares into the offer.

BG Group has entered into an agreement whereby AGL has an option to acquire 100 per cent of the Lacerta and 15 per cent of the Polaris licences for AUD\$856 million as well as, 100 per cent of the Condamine power station for the higher of outturn cost or an independent market evaluation.

AGL is able to exercise this option if BG acquires more than 50 per cent of QGC.

I should emphasise that all of the above does relate to an *option*. All statements in this presentation regarding reserves volumes and valuation metrics exclude the effects of this option. However, we note that this option is not dilutive to BG's acquisition metrics.

Let's turn briefly now to QGC's own acquisition activity prior to our offer today.

In June 2008, QGC and Roma Petroleum announced a recommended takeover offer for all of the issued share capital in Roma; and in August 2008, QGC and Sunshine Gas Ltd announced a recommended takeover offer for all of the issued share capital in Sunshine.

To date, the holders of more than 98 per cent of Roma shares have accepted into the offer, and the compulsory acquisition of all remaining Roma shares is underway.

Separately, to date, the holders of 81 per cent of Sunshine shares have indicated that they will accept QGC's takeover offer. The offer for Sunshine closes on the 4th of November 2008, unless extended.

BG Group will offer Roma and Sunshine shareholders AUD\$5.75 cash per QGC share equivalent and it is expected that BG Group's offer will be welcomed by the Sunshine and Roma shareholders.

The Federal Treasurer, Mr Wayne Swan, has given approval, under the Foreign Acquisitions and Takeovers Act, for BG Group's plans to acquire 100 per cent of QGC. The Treasurer's decision followed a review by the Foreign Investments Review Board.

The indicative timing for this on-market takeover offer is that from today, QGC shareholders are able to sell their shares to BG.

BG Group's Bidder's Statement has been lodged today and will be dispatched to QGC shareholders by the 12th of November.

QGC will also dispatch its Target's Statement by that date.

The offer will close on 15th of December, unless we extend the offer.

BG Group expects the funding of this acquisition to be met by the Group's cash reserves, supplemented as required, by our existing committed facilities.

We will remain strongly financed with modest gearing, and we expect no change to our A-rated credit status.

In aggregate, we expect to be able to fund our growth programme from operating cash flow. Now, those are the principal features of the transaction. Let me now move on to describe QGC's business.

Since listing on the ASX in 2000, QGC has become one of Queensland's largest companies and a leading coal seam gas producer in Australia.

The centre of QGC's resource base lies in the world-class coal seam gas play of the Walloon fairway in the Surat Basin.

This play, rapidly gaining recognition, has been established and delineated through the drilling of more than 550 wells. Production from the Walloon Fairway has reached a maximum of some 135 million standard cubic feet per day of Coal Seam Gas, and this is set to increase rapidly in coming years.

QGC's Surat Basin licenses cover an area of some 8,000 square kilometres. QGC is the operator of 19 out of 20 of these licenses, with an average joint equity position of 75 per cent.

This is a high-quality portfolio that has already established equity proved reserves of some 700 PJ; 2P reserves of 2,700 PJ and 3P reserves of 7,100 PJ.

And of course, QGC's current recommended offers for Roma and Sunshine are set to increase 3P reserves to some 8,200 PJ as well as adding significant unexplored acreage.

Under BG Group's offer, these 3P reserves are being acquired at an average cost of some US\$0.44 per million Btu, equivalent to AUD\$0.67 per gigajoule. In addition, we believe that there exists significant exploration potential beyond today's reserves

In February 2008, BG Group and QGC announced an alliance to co-operate in coal seam gas exploration and production, the development of domestic market opportunities and the construction of an LNG export facility on the Queensland coast.

Under that alliance, BG Group acquired a 9.9 per cent stake in QGC and a 20 per cent interest in its underlying coal seam gas assets, with the right to increase this to 30 per cent on a change of control of QGC or, at the time of final investment decision for the LNG scheme.

The two companies are developing the Queensland Curtis LNG project at the port of Gladstone: BG Group holds 70 per cent and QGC 30 per cent.

BG Group has the rights to purchase and market 100 per cent of the LNG produced by that facility.

The alliance has proved to be very productive for both BG Group and QGC and has been characterised by a close and collaborative working relationship at all levels.

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Now since February, significant progress has been made on key activities:

- More than 65 exploration and appraisal wells have been drilled and 2P and 3P reserves have more than doubled;
- Progress has been made with pipeline design and routing;
- The Queensland Curtis LNG site has been delineated for a plant of up to 12 mtpa;
- The LNG site has been procured by the Queensland government and land use contracts have been drafted and delivered to BG.
- The Front-End Engineering and Design study is underway with Bechtel; and
- Work is progressing towards the Final Investment Decision, anticipated in 2010.

We now expect a two-train 7.5 mtpa first phase of development, with first cargo’s planned in 2013.

So, overall, excellent progress in a very short period of time. I believe this has been possible because both companies share common goals and similar cultures, and have highly complementary skills and assets.

And it is the recognition of this that has prompted consideration of the additional value that could be created through the combination of BG Group and QGC.

I will return to this in just a moment.

But first, let me provide you with a brief recap on our strategy to set the context for the transaction.

I think you’re all now familiar with this picture. BG Group’s strategy is to focus on specific, high-value markets, then secure competitively-priced resources to connect to those markets.

We combine a deep understanding of energy markets, with a proven track record in finding and commercialising reserves.

Our integrated approach means we have the people and we have the skills to capture value at any point in the gas value chain – from reservoir right through to burner tip.

It is a distinctive strategy, with few parallels on the international stage. And it is a strategy that has been delivering value for our shareholders as this operating profit profile shows. And there is much more to come from this portfolio.

In February we updated the market on our 2009 and 2012 growth targets and pointed to the fact that the portfolio was capable of sustaining a 6 to 8 per cent compound annual average growth rate right out to 2020.

As part of our third quarter results we will be briefing the market on our progress towards these targets, ahead of our full strategy presentation in February.

Now, integral to BG Group's global gas strategy is the development of LNG markets and supply.

Global LNG demand is set to triple over the period 2005 to 2020. Over this same period, demand in the Asia-Pacific basin is expected to more than double.

Now, current market uncertainties could influence the shape of the future demand curve. However, LNG projects are very long term and there is little disagreement between commentators that demand for LNG is expected to grow strongly over the coming 15 years.

Now against this background of long term demand growth, BG Group's portfolio continues to take shape.

We have multiple sources of equity and contracted supply, as well as multiple markets and market propositions in both Atlantic and Pacific. These are coupled with demonstrated commercial and logistical capabilities to capture inter-basin arbitrage whenever this arises.

Since 2005, we have sold LNG to 16 out of the 19 importing countries worldwide.

In recent times, we have marketed a great deal of short-term Atlantic Basin LNG to customers in Asia, much more in fact than any other operator.

Here, we have shipped cargoes to the traditional markets of Japan, Korea and Taiwan, as well as more recently to China and to India. We are building regasification facilities in the seasonally counter-cyclical market of Chile. And we were delighted recently to announce a new, long term, supply contract to Hong Kong from 2013 and our appointment as gas market aggregator and LNG supplier to the growing Singapore market from 2012.

In step with the development of these markets, our goal, confirmed in February, is to secure a total of 20 mtpa of LNG supply by the middle of the next decade.

It is a powerful global gas market strategy, being played out against a background of structural demand shifts and new price dynamics.

With each new market, each new customer and each new source of supply, we are progressively moving closer to the realisation of BG's long standing global gas market aspirations. And the acquisition of QGC is an important next step in the evolution of that story.

So, those are the attributes of BG Group and QGC as highly successful stand-alone companies in their own right.

Let's turn our attention now to the rationale for the offer.

Simply put, the industrial logic driving this transaction is the *additional* and *material* value that can be created through the combination of BG Group's and QGC's skills and assets, in a single, efficient, integrated organisation – embodied within a one company ownership structure.

Significant benefits flow from the efficiencies that can be achieved when there is a seamless and enduring alignment of objectives and operating performance, from reservoir right through to burner tip.

Alongside this, benefits accrue when the timing of supply project phases can be optimised around gas market trends and dynamics, and are unconstrained by any partnership alignment or capacity issues.

We know that great progress has been made with the proving of reserves; so much so that we now anticipate on-going progress with reserves, which by 2010 would support the sanction of a 7.5 mtpa, two-train, first phase to the LNG project.

This means that the next phase of QGC's evolution will depend on a step-change in their skills base, organisational resources and balance sheet capacity. And the extent of this required step-change is amplified as QGC's resource base and opportunity set grow.

Under BG's ownership, QGC's skills and assets will benefit from the access to the global resources and greatly enhanced balance sheet capacity required for QGC to maximise the value of its opportunity set.

These reasons, taken together, form the industrial logic underpinning this transaction. And the value created from the combination flows to both QGC and to BG Group. It facilitates a full and fair cash premium today to QGC shareholders; and it affords BG Group the opportunity to create value for *its*

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shareholders, through investment in long-term growth, in upstream production, domestic gas marketing and in equity LNG liquefaction.

The transaction has the following important strategic drivers for BG Group, QGC stakeholders, and for Queensland:

- First, it establishes a material BG business situated in a stable, attractive OECD investment setting;
- Second, the BG Group and QGC assets together will bring about a step change to BG Group's Asia-Pacific business footprint;
- Third, it provides BG Group with material undeveloped resources adjacent valuable Australian domestic and regional markets;
- Fourth, it will strengthen the regional bridgehead from which BG can supply its existing markets such as Singapore, Hong Kong and Chile and the traditional markets of Japan, Korea, Taiwan as well as China. It will also form a base from which to pursue new high-quality market opportunities to add to BG's existing OECD markets in Europe and in North America;
- Fifth, it enhances BG's global LNG position by securing new equity supplies from the Queensland Curtis LNG facility;
- Sixth, Coal Seam Gas is already recognised and proven in some domestic settings. However its full potential as a new and material source of long-term gas supply, capable of serving both domestic

and international markets alike, is only now beginning to be appreciated.

QGC is an expert and leading CSG operator. Our acquisition of these skills will provide BG Group with new options and new opportunities to compete in a world where access to resource is one of our industry's progressively increasing challenges;

- Seventh, our ambition is to retain QGC's management and employees and support the development of their valuable skills within an enhanced global gas group. The strong QGC brand will be retained and developed, as will most of the company's existing assets and operations;
- Eighth, the transaction secures the creation of a material LNG business in Queensland, premised on BG's demonstrated LNG project realisation skills and existing customer and market positions.

BG Group is a committed long-term investor in Australia, where we foresee substantial investment over the next decade and where we expect to create more than 4,000 new jobs in Queensland.

So these are the principal strategic drivers behind this deal.

Let me conclude now by summarising the key points once again:

We have made today an unconditional, on-market, all cash offer of AUD\$5.75 cents per share, which corresponds to a total consideration of around AUD\$5.2 billion for BG to acquire 100 per cent ownership of QGC.

The industrial logic driving this transaction is the *additional* and *material* value created through the combination of BG Group's and QGC's skills and assets, in a single, efficient, integrated organisation, embodied within a one company ownership structure.

QGC shareholders will receive fair value for their shares combined with the certainty of cash.

For BG Group, this transaction enhances an already powerful global gas strategy, by building on our existing Australian domestic and export interests, and providing the Group

with both material Asia-Pacific resources and Pacific Basin LNG supply.

BG Group will finance this acquisition from the Group's cash reserves, supplemented, as required, by our existing committed facilities.

We have worked consistently in recent years to identify an opportunity to establish a centre of gravity in the Asia Pacific Basin, from which to grow new opportunities and, at the same time, underpin the globalisation of our business.

Ladies and Gentlemen, I believe we have found that opportunity in the acquisition of QGC and I look forward to elaborating further on this acquisition at our February strategy presentation, by which time we expect this transaction to have been completed.

Thank you for your attention.