

BG Group PLC
First Quarter Results 2005
Speech for Analyst Conference Call
10 May 2005

Introduction [Chris Lloyd – 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, Frank Chapman, Chief Executive, will take you briefly through the quarter's key business highlights, and then Ashley Almanza, Chief Financial Officer, will look in more detail at the financial results. After this we will take questions.

During this presentation we will 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 the statement issued today.

Thank you, and now over to Frank.

Frank Chapman, Chief Executive

Good afternoon, Ladies and Gentlemen.

You will have seen the results statement, so I will just highlight some of the main points before I pass over to Ashley to take us through the financials in detail.

You'll remember last year, we set out a detailed picture of the strategy and projects that aim to deliver exceptional earnings growth to the end of the decade. And we said in February that that picture looks even better one year on. By enhancing the value of some of our existing assets, accelerating the delivery of some key projects and creating some significant new opportunities, we have improved the outlook to 2009 and beyond.

And I'm delighted to say that we are beginning to see the results of that improved picture in these excellent first quarter results.

The Group's operating profit was 44% up on the same quarter last year as were earnings. Significantly, if you strip out the effects of upstream prices and the weaker US dollar, you will see that around half of that increase comes from strong underlying growth. And, the theme of strong underlying growth is one I've been repeating for some years now and again this quarter it is a distinguishing feature of our results.

In **Exploration and Production**, we continued to make good progress in Egypt during the quarter. In April, first gas was produced from the Simian and Sienna fields for supply to Egyptian LNG Train 1 and we delivered first gas from Rosetta Phase 2 to the Egyptian domestic market.

We also continued to make good progress on our other major upstream projects during the quarter, including the Buzzard field in the North Sea, the Panna, Mukta and Tapti fields in India and the East Coast Marine Area in Trinidad and Tobago. Each of these remains on schedule.

Most notably, in exploration, I am pleased to report that further assessment of the Manatee discovery in Trinidad has indicated gross reserves in the range of 1.3 to 1.6 tcf. This, together with additional reserves elsewhere in the country, provides BG and our

partners with over 3.0 tcf of uncommitted gas, which we are now working hard to commercialise.

Moving now to **LNG**.

Our momentum in developing the LNG business continued during the quarter with the delivery of the first cargo from Damietta in Egypt - produced with gas from our Scarab Saffron fields. Egyptian LNG Train 1 – a key project for BG Group – remains on track to become operational at the end of May, some three months ahead of schedule. And work continued to bring Egyptian LNG Train 2 and the associated upstream Sapphire facilities onstream six months earlier than planned in the fourth quarter of this year.

In **Transmission and Distribution**, I'm delighted that our businesses in Brazil and India continued to show strong growth during the quarter.

In summary then,

- A very good start to the year
- Excellent first quarter results
- Strong growth in Exploration & Production, Transmission & Distribution and LNG
- Good progress with the delivery of our strategy

And now over to Ashley for a more detailed look at the financials.

Ashley Almanza – Chief Financial Officer

Thank you Frank and good afternoon ladies and gentlemen.

Let me begin with a few comments on the presentation of the Groups results under IFRS.

As always, our aim is to provide a clear and consistent understanding of the Groups underlying operating performance. Accordingly we have separately identified profits on the disposal of fixed assets and un-realised mark-to-market re-measurements which arise under IAS39.

This is set out in a useful summary on page two of the results statement.

Let's now turn to the Group's first quarter performance, beginning as usual with the Exploration & Production segment.

In E&P, production volumes were up by 7% with increased production coming from the Scarab-Saffron in Egypt and CPC exports from the Karachaganak field. These increases were supplemented by new volumes from the acquisitions in Canada and Egypt.

Turnover and other operating income rose 33% as higher volumes and commodity prices were partially offset by the weaker US\$.

Unit operating costs were \$3.96 per barrel of oil equivalent compared with a full year average of \$3.66 in 2004. This year we're seeing a weaker US Dollar and stronger commodity prices – both have an adverse impact on \$reported opex. In addition, margin-enhancing changes to our production mix have increased lifting costs. I therefore expect that, at current prices and exchange rates our average unit opex for 2005 will be around \$3.90 per barrel.

The changes to our production mix had a positive impact on average margins and whilst production rose by 7%, operating profit rose by 17% at constant prices and US\$-exchange rates, this despite a £9m increase in the exploration charge. The higher exploration charge reflects the expanded exploration programme we outlined in February this year.

Turning now to the LNG segment:

Turnover rose by 16% as volume growth in both the liquefaction and marketing businesses was partially offset by the weaker US\$.

Operating profit for Shipping and Marketing rose by £9m to £15m as 19 cargoes were delivered into the US and a further 9 cargoes were re-directed to other markets for better prices.

At Atlantic LNG, BG's share of profits was up £7million to £21million. Volumes rose by 13% and the benefit of higher prices at Train 1 was partially offset by the effect of the weaker dollar.

For the LNG segment as a whole, total operating profit rose by £12m to £27m.

In the Transmission and Distribution segment total Operating Profit was £46 million, an increase of £16 million.

At Comgas operating profit rose by 38% to £29million. This was due to a 14 % increase in volumes, higher margins and the positive effect of the weaker US \$ on imported gas costs. The lower gas cost amounted to £4million in the quarter and will be passed back to customers in the second half of the year.

MetroGAS sales to power generation customers increased by 36% and it posted an operating profit of £4million, up from £1m in 2004. The capital restructuring of MetroGAS continues and, as before, I expect that on completion of the restructuring, MetroGAS will no longer be a subsidiary of BG.

Gujarat gas and Mahanagar gas, our Indian T&D businesses, performed well and together contributed £9million to total operating profit. This represents an increase of £5m, of which £2m is a one-off credit relating to the favourable settlement of a contractual claim.

Operating profit in the Power segment was in line with last year when adjusted for the impact of the weaker US\$. The increase in turnover relates exclusively to Premier Power and the increase reflects the pass through of gas costs, with no impact on profits.

The continued growth in E&P, LNG and T&D meant that the Group's total operating profit rose by 44% to £483million. At constant upstream prices and US\$ rates, the increase was 21%.

The interest charge was £2 million higher than last year due to interest payments on new LNG ships.

The effective tax rate including that on profits from joint ventures and associates was 40% - this is unchanged from last year.

Group Earnings rose by 44% and Cash generated by operations increased by 47% to £549million. Capital investment for the quarter was £315 million and net debt was £905 million, including £191 million of non-recourse debt in Metrogas.

Book gearing at quarter-end was 15.3 %.

The sale of BG's interest in the North Caspian concession was completed on 6th April for approximately \$1.8 billion dollars. The cash tax on this transaction is expected to be lower than the tax charge due to the utilisation of prior period tax losses in the UK. The cash proceeds after disposal costs and Kazakh tax are therefore expected to be approximately \$1.5 billion. A pre-tax, book profit of approximately £420 million will be reported in the second quarter.

That concludes my remarks and I'll now hand you back to Frank.

Frank

Finally, you will recall that in February we said we aim to create industry-leading growth to the end of the decade based upon a programme of organic growth. And, we said the programme had got better through the enhancement of some of our existing high quality assets and the accelerated delivery of key projects. You can see from these first quarter results that BG is on track with those plans.

Thank you for taking part in the conference call today and I'd like to remind you that we will be announcing our second quarter results on 27 July.

Good-bye.