BG Group

2006 Q4 and Full Year Results and Strategy Presentation

8 February, 2007

Sir Robert Wilson – Chairman:

Good afternoon ladies and gentlemen, welcome to the BG Results and Strategy Presentation. I'm Robert Wilson the Chairman of BG, I'm sure that you know both Frank and Ashley.

The operating and results last year were again very good and I hope you'll agree that they included further evidence of the value of our position in the LNG sector. This is now the fourth occasion in which I have opened these meetings. They've always been presenting very good results for the year, but to my mind this year's presentation is the most important. And the reason I say that is that until now we have been reporting largely on the successful development of our existing investment projects.

Last year Frank talked about our plans and aspirations for growth beyond the end of this decade. But those plans were generally at a fairly early stage of development. And 2006 has changed that picture very dramatically in my view. There's now a lot of meat on the bone. I think that's quite a considerable achievement and I say that from my position that the executive of this company have achieved as much progress during 2006 as they have in terms of accessing new opportunities at a time which is probably just about the most competitive environment there's ever been amongst international IOC's for access to upstream opportunities.

Well what are these opportunities? Some of them are based on our existing asset portfolio. And you're going to hear today for example of plans for considerable further development of Karachaganak. And you already know about some of the opportunities around our asset base, including UK North Sea and including Tunisia.

But then we have some new opportunities. The first of these I'd mention is Brazil where we had an exploration success fairly late last year. That looks at the very least as though it's going to be good, the upside potential of it could be very big indeed. And of course it has positive implications for other exploration assets we've got in the Santos Basin.

Then there's Oman where we have another potentially very large opportunity. There's Nigeria you've already heard most of the story here. The Nigeria development for us isn't yet nailed down but it could be another very important major development. And that's not all you're going to hear about a major expansion of our exploration assets into a wide array of new areas.

The top of the list must be Norway where we now have more than 20 exploration licences and where we're only now beginning to start drilling.

Now it goes without saying that all these opportunities are going to take a lot of work and effort before we're showing you profits as a result of them. But if you had reservations up until now about our ability to sustain growth beyond the end of this decade I hope that they're going to be dispelled.

Today is a growth story, but let me be quite clear. The growth that matters to us is growth of shareholder value and by that I mean NPV per share. Now it's pretty likely that in growing the value of our shares we're going to be growing production as well. But it is that way round, growth of production in other words is not a target in its own right, it's a part of the outcome of our successful efforts to grow shareholder value.

Well I'll stop at that point and open up for Frank to take you through the first part of the presentation.

Frank Chapman – Chief Executive:
Thank you, chairman. Good afternoon, ladies and gentlemen and welcome to today's fourth quarter results and strategy presentation. I'm Frank Chapman, Chief Executive of BG Group and today Ashley Almanza, our CFO, and I are here to review our 2006 results and talk about our plans for the future.

Before we start, let me show you this legal disclaimer, which you may wish to read in more detail later.

Today I am happy to report another set of record results for BG.

The highlights of our performance in 2006 are:

- Earnings per share up 24%;
- Production up 19%;
- LNG liquefaction volumes up by 63%; and
- A near-doubling in operating profits from our LNG business.

After our decision last year to increase significantly our dividend, I can also announce today, a further increase of 20%. And we're following up last year's share buy-back with a further £750 million buy-back.

Now, what are the highlights for the future?

- o First, a reconfirmation of the outstanding earnings outlook to 2009;
- o Second, our distinctive, long-life base set of assets has been further improved;
- o Third, a significantly enhanced set of projects to 2012 and beyond; and
- o Finally, our E&P resources up by around one billion boe.

Since we started the transformation of this business in 1996:

- we have forged a powerful strategy and investment proposition,
- we've turned-around our exploration performance,
- we've transformed our cost base,
- we've grown volumes strongly, and

- we've created an internationally diverse, integrated energy major, with a progressively strengthening reputation for strategic innovation, delivery and gas-chain expertise.

And, all of that progress, has found expression in profitability - an industry-leading 39% compound annual growth rate in operating profits over the full ten years.

And I underscore this, not just to celebrate what is, in any terms, a considerable achievement; but rather to give you, a sound basis for confidence. Confidence that the picture I'll paint today of BG's future, is realistic, achievable, and will be delivered. In just the same way as we have delivered over the last ten years.

The way we're going to organise the session today is this:

- First, I'll talk briefly about our strategy. Then Ashley will present our 2006 results;
- I'll then focus on some of the specific assets and projects that underpin BG's portfolio for growth;
- And, after that, I'll update our framework for growth, before concluding and inviting your questions.

So let me begin with a few words about our strategy. It remains, in essence, unchanged from the strategy I've presented to you many times before.

And it's unchanged because it continues to deliver value. As we showed you last year, it's based on a simple concept**:** identifying and focusing on specific, selected, high-value markets, and securing low-cost gas to connect to those markets.

We are unique in our industry because we specialise in gas, and we have the skills to compete right across the gas value chain.

Our strategy recognises that value can arise anywhere along the gas value-chain; from the reservoir, through to the burner tip.

Our asset base and skills lead us to implement the strategy by investing selectively across the segments - E&P, LNG, T&D and Power. And our track record shows that this strategy has consistently created value for shareholders.

Our confidence that we will continue to succeed, is rooted in a *passionate* belief, that our competitive advantage stems as much from 'who we are' and 'how we go about our work', as it does from 'what we do' or 'the assets we own'.

Our confidence also stems from the fact that our strategy continues to prove robust in the face of important trends affecting our industry. And we think BG is well positioned to respond positively to these changes.

We continue to enjoy the benefits of high oil and gas prices. But high prices have also driven significant cost increases, and increased project cycle-time.

We believe that our low-cost portfolio, our continued top quartile performance on unit costs and our project delivery focus, give us competitive advantage. This advantage would be particularly marked, should we see oil-prices fall back below the levels we have experienced recently.

Governments in resource-rich countries are changing their perspectives, on how to develop their resources, in the light of the higher value of their hydrocarbons. Some have taken greater direct control. And this is adding to the challenges already faced by the industry in accessing new resources.

Our strategy, is proving robust in the face of this trend. I believe this is because of our expertise in gas, and our willingness to work with partner governments to support their broader economic development goals.

And, at a time when the strategic importance of resource renewal has moved up the agenda of the industry, we have been able to make important additions to our E&P portfolio. And I include here examples in Algeria, Brazil, China, Nigeria, Norway and indeed in Oman.

We've also demonstrated a track record of responding swiftly to market trends, often ahead of the competition. And, it is our integrated approach to the gas value-chain, and our focus on building access to and supplying specific markets, that gives us this edge.

Before we wrap up the strategy section, let's just take in some of the numbers, that characterise our 10 years of outstanding growth

On volumes, E&P production has grown at 15% per annum compound.

In LNG, we have grown from a standing start, to establish the leading Atlantic Basin position over the period.

And, as I mentioned earlier, this has translated into a 39% compound growth rate in operating profits over the 10 years – an achievement which would stand out in any industry sector.

So what of the future?

Well, before I share with you a preview of the next chapter in our growth story, I'd like to hand over to Ashley, who will present our results for 2006.

Ashley Almanza - Chief Financial Officer:

Thank you Frank; and good afternoon ladies and gentlemen.

Over the course of the next 15 minutes I'd like to highlight the key aspects of BG's performance in 2006 and the outlook for 2007.

In E&P, we recorded a 19% increase in production for the year and operating profit rose by 27%. Higher commodity prices and the significant step up in production more than offset the predicted increase in the exploration charge.

Although fourth quarter average production was 622,000 barrels per day, we ended the year 2% below our target. This was due to an undersea line in Egypt being ruptured by a ships anchor, together with delays in the start-up and ramp-up of new assets. The one off nature of these events mean that they have no impact on our medium and long term production growth.
Unit Opex was $4.82 per barrel for the fourth quarter which took us to $4.18 for the full year - in line with our previous guidance.

Exploration expense increased by 50% to £272 million. This was mainly as a result of our substantially bigger programme but also reflects industry wide inflation.

In a moment we're going to look at our E&P metrics but first: let's review the proved reserves changes that underpin these measures.

This chart starts with the substantial, positive revisions to existing reserves, principally due to the promotion of 2P reserves. The second bar shows reserves booked from new developments and new sales agreements on existing fields. Together, these two categories make up underlying performance which replaced 110% of 2006 production.

Once again, year end prices had an impact on our reserve replacement rate. This was mainly due to higher net back prices for Karachaganak sales through the CPC line. Elsewhere, lower prices also reduced our reserves in tax and royalty concessions and our fiscal entitlement in other licences.

In aggregate, the SEC additions to reserves, which takes into account all of these changes, was 184 mmboe; a replacement rate of 84%.

Our 3 year reserve replacement rate was 108%. Moreover, since BG increased its total resource base by approximately one billion barrels in 2006, the prospect of the successful development of these resources gives us growing confidence that we will continue to be very competitive on our reserve replacement rate. Frank will cover the increase in our resource base in more detail.

Across the industry, costs have continued to rise quickly and this makes it difficult for us to show how other companies are likely to perform in 2006 other than by extrapolating recent trends. As you can see BG performed well this year. And here too we expect that the development of our significant, low cost E&P resource base will help BG to maintain a top quartile position in both F&D and operating costs.

Now let's turn to the outlook for our E&P business.

Our planned production growth over the period 2006 to 2009 remains at between 5 and 7% and we expect volumes to build progressively during 2007 as our new fields ramp up.

We expect unit opex of approximately $4.60 per barrel in 2007. The increase reflects the lagged impact of higher commodity prices and changes in our production mix.

Our 2007 budget for exploration and appraisal is approximately £600 million with a P&L charge of around £320 million pounds.

Let’s move on to LNG.

In shipping and marketing, volumes rose by 29% in the quarter and operating profit rose to £118 million pounds. This reflects our growing capability to deliver LNG to the best markets around the world. Fourth quarter profit also included £20 million of the £30 million gain that we locked in during the second quarter. Because of the way forward prices moved we are required under IFRS to recognise a portion of the gain in 2006.

For the full year volumes increased by 55%, and operating profit in shipping and marketing rose by 177% to £332 million. This result once again underscores the value that BG is able to create with its flexible, low cost portfolio.

Profits from liquefaction fell slightly in 2006 as rent was transferred upstream from Egyptian LNG and as we incurred start up costs on Train 4 at Atlantic LNG. The start up of Train 4 was slower than anticipated and as a result total liquefaction volumes of 6.7 million tonnes were slightly below our full year target.

As expected, business development and other costs rose to £84 million for the full year as we continued to develop new supply and marketing opportunities, including the OKLNG project in Nigeria and Chile LNG.

For the LNG segment as a whole, operating profits rose by 94% to £352 in 2006.

Now, I’d like to take a moment to describe the outlook for our LNG business.
For liquefaction, we expect an annual pre-tax return on capital of 13% for the period 2007 to 2009. Invested capital is expected to be approximately £100 million lower than previously indicated.

In shipping and marketing, we continue to see the global shortage of LNG persisting - for at least the next 5 years. This, together with our global marketing capability and flexible, low cost portfolio provides us with confidence in our ability to sustain strong margins in this business. In fact we are already locking in some of these higher margins out to 2009 and beyond. As a result we are now raising our margin guidance; we now expect an EBITDA margin of around 16% in 2007, rising to 18% in 2009. This assumes that around 30% of our LNG is marketed outside the United States – which is lower than 2006. As before, we’ve assumed a HH reference price of $6/mmbtu. Although we will continue to pursue spot volumes in these tight markets, we are discounting any contribution from spot supply and our revised guidance is therefore based on 13.5 million tonnes in 2009.

The net result of these changes is a healthy increase in the expected contribution from our LNG business.

Turning now to Transmission & Distribution.

Total Operating Profit in T&D was £231 million a full year increase of 25% after adjusting for the effect of the MetroGAS deconsolidation. Comgas delivered a 10% increase in volumes and reported a 27% increase in Sterling operating profits as the Brazilian currency strengthened in 2006.

For 2007 we expect volume growth of 7-8 % at Comgas.

In the power segment, operating profit <u>de</u>creased by £7 million mainly due to increased maintenance activity at Premier Power, in Northern Ireland.

With the pending completion of our Lake Road acquisition we will have 2 new power assets in the United States this year. These assets should contribute around £18 million to the Group's operating profit in 2007 and we expect this contribution to rise progressively over the next 3 years as we integrate these assets into our US gas business.

The Group's full year Total Operating Profit increased by 30% to £3.1 billion. Full year finance costs of £43 million reflected lower net debt and the receipt of £28 million interest in relation to tax settlements. In forecasting the 2007 charge you will need to factor in the one off effect of the tax settlements and the interest cost associated with the new buyback programme.

The effective tax rate for 2006 was 43.7% and after absorbing the increase in North Sea taxes, earnings per share rose by 24%. For 2007, we expect an group tax rate of around 44%.

Cash conversion remained strong in 2006 and cash flow from operations increased by 34% to £3.4 billion.

The Board is recommending a 20% increase in our dividend for 2006, recognising the strong growth in the Groups earnings and cash flow. Going forward we plan to increase the dividend in line with underlying earnings growth.

Let's now turn to capital investment and capital structure.

This time last year we earmarked capex of £4.8 billion for those projects coming on stream in the period 2007 to 2009. In addition we had £1.5 billion provided for projects in construction during this period but coming on stream after 2009.
Now – lets step through the changes in our capex plan:

Firstly we have enhancements to the existing programme, amounting, in total, to an additional £600 million
Secondly, we have cost inflation of around 10% and this adds another £600 million
There are some minor changes to phasing but these have no effect on the overall plan

Overall then - we have a capex programme of £7.5 billion for the next three years. This will start at £2.2 billion in 2007 and rise progressively over the period. This figure excludes the 3 acquisitions that have been agreed but not yet completed. These are Lake Road and additional equity in each of Armada and Serene and all together these add £500 million to current year investment.

During 2006 we also made excellent progress in gaining access to substantial, new opportunities. In managing our capital structure it is important to consider:
Firstly, the changing price environment, and secondly the value of maintaining sufficient financial flexibility to convert these new opportunities into firm projects.
BG remains committed to capital discipline and after considering these factors, we are pleased that, in addition to funding a growing dividend and an enhanced capital programme, we are able to return £750 million to shareholders by way of a share buy back.

So, to summarise BG's performance and the outlook:
Firm prices, strong underlying growth and disciplined cost management delivered EPS growth of 24% and a 34% increase in operating cash flow.
The outlook for E&P production growth remains positive and the margins available from our LNG business have been strengthened by the global shortage of LNG
In an industry where access to new opportunity is a significant challenge, BG is increasing its planned investment by enhancing existing assets and adding new projects and prospects to our portfolio.
The Group's financial position and outlook remains strong and accordingly the Board is proposing a 20% increase in the full year dividend; and
A return of capital of £750 million pounds

Ladies and Gentlemen that concludes my comments and now I'll hand you back to Frank.

Frank Chapman – Chief Executive:

Thank you, Ashley.

So. The future. In this part of the presentation, I want to update you on the progress we have made in key projects, and identify some of the significant additions to our portfolio over the last year. But, before I do, let me remind you what I said last year.

- Last year, I highlighted an increased earnings trajectory to 2009. This year, I'll show how we're on track to deliver that, with all of the key projects underpinning those earnings, already onstream or now underway;

- Last year, I pointed to our distinctive long-life asset base. This year, I'll show how we've managed to improve it further, raising and extending the production outlook, from assets already onstream;

- Last year, I referred to our strong potential out to 2012. This year, I'll show how our portfolio of projects to 2012 has been significantly extended;

- Last year, I told you how we'd secured new exploration plays. This year, I'll show how **-** through exploration prospects, discoveries and other additions to the portfolio **-** we have increased our E&P resources by around 1 billion boe – or over 13%. And let me emphasise**:** we've achieved that at modest cost; and at a time when replacing production and accessing new opportunities represents a significant challenge for the industry.

Before I run through individual projects, it's worth looking at the set of E&P base assets that gives BG a long, flat, strong foundation, that will underpin future volume growth.

In our industry, it's the kind of picture you don't often see. Last year, we showed you that our E&P production from base assets on stream in 2003 would be 400,000 boe per day out to 2012.

Today, we've added the production from assets brought onstream from 2004 to 2006. You can see from this slide that we expect the assets that produced 600,000 boe per day in 2006 to be producing over 500,000 right out to 2015.

And, let me add, we have growing confidence that we can improve this outlook by developing the further potential, that lies within these assets. And it's worth recognising, that the commercialisation and development of this additional potential will be at much, much lower risk than projects elsewhere in new settings and provinces.

So let's look now, at some of the assets that will contribute and add to these very strong foundations.

In the North Sea, our hub strategy continues to deliver, with J-Block the highlight. In addition to a number of smaller satellites, there's some real excitement around Jasmine and Jackdaw – accumulations with major potential. And these discoveries can be brought onstream quickly, and at relatively low cost, using existing infrastructure.

We discovered Jasmine in 2006. It's one of the largest discoveries in the UKCS in recent years.

We plan to monetise it quickly, and are contracting for development drilling in 2009.

There's also a related opportunity – Jasmine East – which we'll be drilling this year. It lies down dip of the Jasmine discovery and, if successful, would add further reserves.

The Jackdaw field was discovered in 2005. It's a High Pressure/High Temperature field and further work is required to appraise it. Jackdaw could be as big as Jasmine.

It straddles two main blocks – and we expect BG to be appointed as operator of the whole development. We plan to drill two appraisal wells – one in 2007 and one in 2008.

Looking at the picture as a whole, the pattern of production improvements from the UKCS in recent years continues. Most of the increases I have shown you before, have come from improved performance from existing assets. The new element this year, is the significant contribution made by the new discoveries, especially Jasmine. These enable us to sustain an annual 50mmboe production level right out to 2012.

Last year, we referred to the full potential of Karachaganak. And today, just 12 months on, most of that potential is now captured in our expanded, firm plans for the field.

Our focus, in the short-to-medium term, is to maximise the export of liquids to the higher margin Western markets.

And we've achieved a lot over the last year**:**

- We've trialled a second export route through the Atyrau/Samara pipeline;
- We've secured capacity rights to this route; and
- We've sanctioned an expandable rail export facility, as part of the 4th sweetening and stabilisation train.

The key point on this slide is this**:** we are developing multiple export routes. The planned capacity of 15 mtpa is more than twice as much as the current CPC capacity.

Future phases of development of the field will increase production and, importantly, a growing proportion of the total production will access high-value Western markets.

Field enhancement has continued as planned. Facilities de-bottlenecking has been achieved in 2006; and further drilling using multi-lateral wells is progressing, in order to develop the liquids-rich areas of the field.

In 2008, we will have some periods of partial shut-down, during which we plan to improve the productivity and operating envelope of existing facilities and, at the same time, make preparations for the tie-in of the new Train 4.

The 4th stabilisation train project has now been sanctioned. It has been expanded to include 13 additional wells and a rail export facility of 3.8mtpa. It will increase the Western export volumes to more than 10mtpa, and develop gross reserves of 250 mmboe at a low unit development cost.

Last year, you may recall, we shared an early view of the full potential of this field. Since then we've expanded the Phase III project, and our firm plans now include most of the high-case potential that I characterised as an aspiration last year.

This will involve additional stabilisation to allow increased Western exports, additional wells, additional gas injection and further expansion of the rail export facility.

We expect this enlarged expansion to develop gross reserves of 2.3bn boe, with first production coming in 2012. The gross capex of around $8 billion means that these reserves will be developed at a low unit cost.

The Miskar field in Tunisia is another of our improving E&P assets. The programme of infill drilling is now expected to extend the plateau out another year to 2013.

E&A drilling to quantify the near-field potential will progress this year with the drilling of Mago and perhaps Miskar North thereafter. Successful discoveries could extend the plateau as shown here.

Hasdrubal - our second major development in Tunisia - is now underway and is due onstream in the first half of 2009.

And, here too, there is additional near-field potential. Two discoveries, Hasdrubal Deep and Melquart, have the potential to extend the production plateau beyond 2013. We have rig options to appraise these discoveries in 2008 and 2009.

In India, we continue to develop our integrated business.

The Panna, Mukta and Tapti fields, which we've held for nearly five years now, continue to reveal upside. We expect production to grow by 60% to 2009.

Our two Transmission and Distribution businesses also continue to perform well. Gujarat Gas now sources about half of its supply from the Panna, Mukta and Tapti fields. And, for Mahanagar Gas, the arrival of east coast supplies should ease constraints to long term growth in this market.

Also, our global LNG business has now sold three cargoes into India. It's a new market for them, and a new supply source for this high-growth market.

Let's look a little closer at the potential of the Panna and Mukta oil and gas fields.

On Panna, we started the turn-around of the field by drilling 26 horizontal multi-lateral infill wells to improve production. Today, these wells account for around 60% of field output. In 2006, two new platforms were installed and additional compression was added.

HIIP have been re-assessed at 1.7 billion boe. An additional two or three platforms are planned for sanction this year with first production in 2009. At least 50 further wells are planned across the field. The likely oil recovery factor for Panna is in excess of 20%.

Our success on Panna prompted us to have another look at Mukta. This is a similar but more complex reservoir. The field has only one platform and, as the thin green line on the slide shows, current production is very low.

By assessing all of the available data, and following a successful appraisal well last year, we have revised our figure for HIIP to 900 mmboe. So, we can now see much greater potential for reserves and further development. We'll drill additional wells from the existing platform, shoot new 3D seismic and sanction four new well head platforms and a new gathering platform.

First production from the new platforms is expected in 2009. These firm plans are shown in yellow on the slide.

Possible oil recovery from Mukta is currently assessed as 15-20%. Further work on optimising recovery continues.

Egypt has been one of our key drivers of growth in recent years. In 2006, we supplied over 43% of gas production in Egypt - split approximately 50/50 between domestic supply and LNG. And we have been producing at rates of up to 2.6 billion cubic feet per day.

During 2006, we completed the initial phase of de-bottlenecking ELNG facilities, and we've identified additional reserves potential within our development leases. This progress, taken together with the successful exploration wells on West Delta Deep in 2006, means we are now able to target between 500 and 700 bcf of additional sales to domestic and/or LNG markets.

In the first six months of this year, we'll be looking to identify further reserves potential, before optimising future phases of the WDDM and Rosetta developments.

We also now have full 3D seismic coverage over our three exploration licences. Interpretation is underway and we expect to be drilling in 2008 and 2009.

On ELNG Train 3, we continue to look to aggregate supply, but now see a later start date for this opportunity. This is due principally to the strength of domestic demand and also to alternative options for monetising Gaza gas.

In Nigeria, OKLNG FEED is nearly complete, with competitive bids received and under evaluation. Offtake agreements, fiscal terms, Free Trade Zone status and resettlement agreements are all advancing and in the process of finalisation.

We are working towards sanction of the project in 2007, targeting start-up in 2012. The intention is that this plant will be structured as a profit centre in its own right, buying gas and selling LNG, as opposed to being a tolling plant.

We plan to take a proportional equity stake in the gas gathering system feeding the LNG plant. We expect a staged development of multi-phased pipelines, as more LNG facilities are added to the initial two trains.

We're also developing options for participation in gas-supply to the project.

In parallel with our OKLNG activities, we're building an operated E&P position in Nigeria.

As well as our original OPL 332 licence, we've recently been awarded a second licence – OPL 286-DO – which lies close to the Bonga field. It contains numerous prospects and leads, as well as an existing discovery. It offers over 800 million boe of potential.

We plan to drill prospects on both of our licences in 2008 and 2009.

The Dolphin Field in Trinidad is another of our key E&P assets. Here, ultimate reserves have grown, over time, by a factor of three. And our latest data indicates that there may be yet more to come.

Earlier this year we announced a new domestic market agreement, from Dolphin for 220 mmscf/d. This would start in January 2009, and last for up to 15 years. The drilling programme consists of four infill wells, two of which include extensions to low-risk exploration targets, located directly beneath the Dolphin platform. Again, an example of exploration and development around existing infrastructure; lowering cost and risk.

And we're looking for new opportunities through the recent licence round, applying for a block close to our NCMA facility.

So those are a series of examples that demonstrate the significant firm plans, and further potential, we have to improve our existing assets.

Turning now to LNG – let's have a look at the outlook for this segment.

The LNG industry is forecast to grow at 12% annually through to 2012. This is against an industry average of 7% since 1980.

However, demand for LNG, continues to outpace the growth in supply – a situation exacerbated by widespread delays to new supply projects. We expect this tightness to continue until 2012, and potentially beyond.

Although shipping and regasification are growing rapidly, our existing regas capacity, retains its competitive advantage, because of its very low cost structure. We believe that our LNG portfolio provides the lowest cost, flexible access to the US market.

As Ashley indicated, there were a couple of reasons, why we were able to achieve, a near-doubling of operating profit from LNG last year. Our market positions and, importantly, the flexibility of our portfolio enabled us to add considerable extra value.

Overall, we diverted 78 of our total of 182 cargoes in 2006. This was due in part, to our switching a higher proportion of cargoes originally destined for the US, to markets in Europe and the Far East, where demand was greater than in 2005.

That means that BG supplied around 25% of total flows from the Atlantic to the Pacific Basin last year. I put it to you therefore, that our LNG business has now made the transition, and become truly global in its reach.

Now, this has been possible because only a small proportion of our LNG volumes have destination obligations. This gives us one of the most flexible LNG portfolios in the industry, allowing BG to access premium value markets, wherever and whenever they arise.

And we believe, that it is the combination, of our flexible volumes, our sales relationships with multiple markets, our shipping capacity, our low-cost infrastructure and our people-and-skills that, together, provide advantages that will continue into the next decade.

And, we *believe* in this sustained advantage, because this package, *taken* *as* a whole, is, and will become increasingly difficult to replicate, in the light of current industry trends.

Supply volumes in the LNG business are predicted to grow strongly over the next period and, although these growth rates have moderated somewhat, the outlook for profitability is now better than predicted last year, as a result of increases in margins, as Ashley pointed out earlier.

So - how is our supply portfolio progressing?

As shown in this slide, our long-term firm volumes continue to build. Last year, growth came from Trinidad Train 4 and Nigeria LNG, and, later this year, will be followed by first volumes from Equatorial Guinea.

Our second tranche of supplies is also firming up. We plan to lift from three separate projects in Nigeria: from NLNG T7 and from Brass, where we expect to sign Sale and Purchase Agreements this year. And of course the first equity volumes from OKLNG are expected in 2012.

So we expect to continue to grow our business rapidly. It has evolved from a reliance on spot cargoes just two years ago, via, a rapid ramp-up of long-term contracted supplies. And now we have the plans in place, to secure a significant part of the volumes we had targeted to 2012.

And, importantly, as I mentioned earlier, our outlook for profitability to 2009 has improved.

Overall then, we are continuing to develop our core business in the Atlantic Basin, and to globalise this trade through arrangements in the Pacific markets.

Dragon LNG in Wales is on target to be onstream late this year.

Our Brindisi terminal in SE Italy has suffered delays, but construction continues and we expect start-up in 2010.

We expect sales into Asian markets to amount to between 1 and 2 mtpa until at least 2009.

And, in Chile, BG is developing an import terminal in partnership with local gas and power companies. This is a counter-seasonal market, that we expect to create enhanced marketing opportunities for us, at the interface of the Atlantic and Pacific Basins.

So to summarise – our LNG segment continues to progress over the short, medium and long-term:

- The outlook for profits to 2009 has improved, driven by enhanced margins from global marketing;
- We believe that our lowest cost infrastructure and our flexible portfolio of assets will be difficult to replicate – and we expect them to provide a continuing advantage;
- Our long term supply volumes are largely onstream with more to come;
- Future supplies that will come onstream beyond 2010 are now firming up; and
- We have made significant progress in the globalisation of our LNG business.

The US market is a key building block in our global LNG strategy – and, increasingly, the US is becoming the major balancing market for LNG.

Our vision for the US, has always extended beyond being a wholesale supplier of LNG; beyond the outlet of the re-gasification terminal.

In this fully liberalised market, we are able to add substantial value to our LNG supplies, and other pipeline supplies, by being flexible about where, when and in what form we sell energy.

This flexibility comes from:

  - Storage at our import terminals and at other contracted facilities;
  - Pipeline capacity in multiple markets;
  - Extracting and marketing natural gas liquids at Lake Charles from 2008; and
  - From the gas-fired power stations acquired recently.

Each option gives us opportunities to maximize the value of our supply. Together, the portfolio is a coherent and integrated set of assets and contracts, linked to our regasification hubs.

And, today, I can report that we are well-advanced in implementing our plans to build, an integrated US downstream business.

The recent extension of our power business into the US, is a focused move, that strengthens our integrated US gas strategy.

Tightening reserve margins in the North-East electricity market, make it attractive for gas-fired generators. Given our existing interests in gas marketing in this region, it is an electricity market, in which BG can add value.

In this market, there are constraints on both gas and power supply. There is local resistance to the construction of new plant, and a dearth of suitable sites. And there is a positive regulatory environment, including the implementation of forward capacity markets, designed both to incentivise, and control the amount of new capacity entering the market. All of these factors underpin the logic behind our purchase of existing plant, at a cost that is well below that of new-build capacity.

Our asset selection is aimed at maximising the synergies we can achieve in gas supply, plant operations and power marketing.

Of course, our aim with power in the US is not to become a material, utility-style power player per se. Instead, we have acquired capacity in selected favourable markets, because it strengthens our integrated US gas business, and because we are confident of achieving economic returns consistent with the returns we achieve across the rest of our business.

I'll now return to exploration and production – and review some of the developments in the last year that will drive production-growth well beyond 2012.

We completed 42 E&A wells during 2006. Twenty-two of them were successful.

Our key successes were:

- Jasmine, in the UK;
- Tupi, in Brazil; and
- On the West Delta Deep Marine block in Egypt.

We also made a number of smaller but, nonetheless, valuable discoveries in, for example, the UK, India, and Thailand. We expect most of these to be producing by 2012. And most will use existing infrastructure.

And once again last year, we made excellent progress in securing further new licences. Many of these include existing discoveries. This reduces fundamental exploration risk, and offers the potential for earlier progress towards production.

This slide shows E&A drilling plans for 2007 in three categories:

- New plays, shown on the slide in cream;
- Play extenders in orange; and
- Appraisal wells and near-term production in yellow.

We plan to drill between 24 and 31 wells. And we also have an increased seismic programme - a logical follow-on from the recent licence acquisitions.

Let's have a look at some of the key plays in more detail.

Starting with Brazil - the Tupi discovery was last year's highlight and followed Parati, our first discovery in the Santos deep-water area. As detailed on the slide, we're also active in Santos shallow-water and the frontier, Sao Francisco basin onshore.

But the highlight is clearly Tupi. Our aim today, is to give you some indication, at this very early stage, of just how major a discovery this may prove to be.

The scale is potentially huge, with a structure possibly measuring some 40km by 20km. HIIP range between 1.7 and more than 10 billion boe. There is considerable appraisal work still to do before we can firm up in-place volumes and recovery factors. Nonetheless, Tupi is generating quite some excitement within our company and our aim is to try to move quickly to appraise the real potential.

The operator, Petrobras, has made available one of its contracted rigs to advance the appraisal work this year. We also plan to drill the adjacent prospect Iracema in 2007. Part of the objective here, will be to determine whether in fact Iracema is part of Tupi – an outcome which would represent one of our upside cases.

In addition, we plan to drill a further Santos Basin deep-water prospect, Carioca, this year.

Taken together, we are aiming to drill three wells in this new play this year, subject to obtaining all of the permits and services required for this accelerated programme.

The Tupi and Parati discoveries are strategic play-openers for this deep, pre-salt Santos basin. And we have good exposure to the basin, through other leads and prospects in four key licences. We will have plenty of work to do here in the coming years.

Turning to a more recent addition to the BG portfolio: we entered Oman in 2006, when we secured, in a competitive tender, the rights to a block containing the Abu Butabul gas and condensate discovery. Oman has a ready market for gas and our gas chain expertise, market development knowledge, tight reservoir experience and ability to move quickly, were *all* important factors in securing this new opportunity.

As you can see, this is potentially a very large structure. But it is a tight reservoir, and requires significant appraisal and data-gathering. We will begin appraisal this year with seismic and our first well. We foresee, in the success case, the possibility for first production as early as 2010.

In Norway, BG was the most successful company in the 19th round of licensing in 2006. We acquired eight new licences - five of them as operator. And, in the APA round just announced, we have gained two further licences, one as operator.

In 2007, we plan to drill five wells, three of them operated. We expect this to amount to around 25% of all of the E&A drilling in Norway in 2007.

One of the two licences we were awarded just last week contains the Bream discovery. BG will be operator with 40% equity. We plan to appraise the field in early 2008.

A successful appraisal would move BG a step closer to achieving our first operated production in Norway.

In a little over three years, we have built a material position in Norway, comprising prospects, acreage and – most recently – a discovery.

BG is now the fifth largest acreage holder in Norway, a position established in just three short years. I look forward to being able to report further progress in Norway in the coming periods.

Algeria was a new E&P country for BG in 2006.

We farmed into and were appointed operator of the Hassi Ba Hamou licence. This covers over 18,000 sq km. It contains an existing discovery, and significant exploration potential.

BG has acquired significant acreage in Alaska. We agreed two separate farm-in deals with Anadarko early last year. Work has begun on both. The first, in the Eastern North Slope area is oil-prone. The second, in the North Slope Foothills area, is a gas-prone play, and contains an existing discovery.

We also entered China in 2006, securing three large blocks in the Qiongdongnan and Pearl River Mouth Basins.

This is frontier acreage with strong indications of a working, gas-prone petroleum system. And it's acreage on a large scale – covering more than 25,000 sq km. It is also close to a recent very large gas discovery.

A conventional exploration programme is planned, with 2D and 3D seismic followed by drilling around the end of the decade.

Turning now to reserves and resources.

This slide shows our reserves and resources status – and, overall, an increase of around 1 bn boe has been achieved in the course of this year.

The most significant additions, are to our unbooked resources. These come from new discoveries and from new ventures. We have also continued to bring in new acreage, growing our prospect inventory.

As you can see, we have grown our overall reserves and resources to over 8 billion boe, a growth of around 13% in the year. This base can deliver some 37 years of production at 2006 rates. Put another way, it's also a base that could provide BG with the ability to grow production at 8% per annum for around 10 years.

We are particularly pleased at the growth of our reserves and resources, because it comes at a time when opportunities are limited across the industry. And, as I mentioned earlier, we've achieved this portfolio strengthening, at a modest cost.

This year's detailed breakdown of our resource base, clearly demonstrates both the longevity of our existing assets, and the way in which our future opportunity set has expanded.

So, how does all of this affect our production guidance?

As Ashley mentioned earlier, the shortfall on 2006 production, was due to delays in fields coming onstream, rather than any underlying, long-term shortfall.

So, we're retaining our existing guidance of 5-7% average annual growth out to 2009 from a "base figure" of 612,000 boepd in 2006. The key projects that contribute to growth in this period are unchanged.

Looking out to 2012, we now have a much richer suite, of more fully developed projects and opportunities. And this enhanced opportunity set, gives us greater confidence in our longer-term outlook.

And I want to emphasise, that the recent discoveries and the reserves that we have added to the portfolio, mean we already *have*, the potential to *exceed* the mid-point of our guidance, without any further exploration successes. Of course, work remains to be done, to convert a number of these opportunities into firm, sanctioned projects.

So, in summary, one year after setting the guidance for production growth to 2012, the progress that I have described for you in today's presentation, means that we are more confident now, that we will deliver production growth towards the top half of our targeted 6%-10% range.

And this slide summarises the key projects to 2009 and further important opportunities out to 2012.

The list of projects scheduled to come onstream between 2007 and 2009, in the top box, are either sanctioned, close to sanction or fully contracted. So, we have a high degree of confidence, that they will be delivered.

The list of key opportunities in the lower box, represents those we intend to bring onstream between 2010 and 2012. They are all items that are in our current portfolio. And it's a longer list than last year, because of a series of important developments over the last 12 months.

Earlier in the presentation, we described how we have already made progress in converting some of these opportunities into defined projects – for example, Karachaganak Phase III, OKLNG and Panna and Mukta. It is a powerful set of projects, already in our portfolio, and it can sustain growth to 2012, and indeed beyond.

As well as these, we already have a number of additional opportunities that will come onstream after 2012. This slide gives an idea of where we expect the next phase of growth to come from.

So let's wrap up the formal part of the presentation with our Framework for Growth, and some final conclusions.

This year, we've refreshed our framework for growth. I think this makes it simpler and more useful. When we first introduced this in 2004, we were using a reference price of $17 Brent. The world has changed a lot, since then. As before, the purpose of this framework, is to provide you with a means of understanding, how we aim to translate strong underlying growth in our operating businesses into EPS growth – assuming fixed, flat reference conditions.

This picture is based on a flat Brent price of $55, which is close to the market consensus over the period.

Focusing on 2006-2009, the top five contributors to our earnings growth in absolute terms are Karachaganak, Buzzard, our US LNG operations, Trinidad E&P and Hasdrubal.

This helps you appreciate, that our planned rate of earnings growth, will in fact, be a significant multiple of the rate of growth in energy demand.

Most of the assets underpinning our planned growth, are already in operation, and I am, therefore, able to re-confirm, with greater confidence today, our aim of growing BG's underlying earnings, at a multiple of the industry average.

And, moreover, based on the improved and expanded set of opportunities we have shared with you today, I believe that we can sustain this *well* beyond the timeframe shown here.

So, ladies and gentlemen, today we've reported another set of results that extend our track record with:

- Earnings per share up by 24%;
- Strong volume growth – from E&P and LNG once again;

- Enhanced returns from LNG, thanks to our ability to take maximum advantage of market conditions;
- A further increase in our dividend – this time by 20%;
- And a further share buy-back of £750m.

Looking to the future, the company's growth prospects are excellent; both from the lower risk expansions of our base set of assets, *and* from a much expanded set of future opportunities.

- Last year we increased our earnings trajectory to 2009. And we confirmed today, that we remain on that trajectory – one which will see earnings grow at a multiple of the energy industry average.

- Importantly, all of the projects that will deliver this outcome, are either already onstream, or well underway.

- We said last year we had a distinctive, long-life base set of assets. We've shown today how we have improved that set, and how their 2006 contribution, will remain strong right out to 2015.

- We said last year, that we had great potential out to 2012. This year, I've shown a significantly enhanced set of projects to 2012 and beyond.

- We said last year, we had secured new exploration plays. This year, we've added further to that story. Overall, through exploration prospects, discoveries and other additions to the portfolio, we have increased our E&P resources by around 1bn boe. And, *moreover*, we have achieved this at a modest cost, and at a time when the industry as a whole is challenged to access new resources and new opportunities.

BG Group has delivered, a 10-year track record of leading growth. And it is this track record, that now provides the basis, against which you will judge the plans for the future that I have laid out today.

Ladies and Gentlemen, this was a, decade of growth delivered. And we are now set fair, for another decade of growth to come.

Thank you for your attention.

Sir Robert Wilson – Chairman:
Thank you Frank, I know you've heard quite a lot of parts of Frank's story during last year as events unfolded. But I hope you'll agree that when you look back on it as a 12 month period of achievement it really is very substantial.

Anyway I'd like to turn the meeting over to you for your questions.

Question and Answer Session:

Iain Reid:

Hello it's Iain Reid from UBS. Can I ask you two questions Frank, firstly on power, you talked about - US power this is, you talked about obtaining the same sort of returns from this business as from the rest of the business. But the guidance, which you actually gave for 2007, didn't seem to be particularly substantial. Could you give us some indication about what the EBIT contribution is going to be from this business going forward and what the sort of return we could look for there is?

And secondly on Atlantic LNG, the next train, train X or whatever it's called now wasn't mentioned. Has it slipped beyond the 2012 programme or is there still plans to develop that before the end of the planned period?

Frank Chapman – Chief Executive:

Well I'll leave Ashley to say something EBITDA multiples but the fact is of course that as Ashley said in his presentation we expect the contribution to grow from these assets as we integrate them with our business. So what you're seeing as an indication of the operating profit contribution in 2007 is not the profile, which drives the economic outlook for these ventures.

So when we're looking at these ventures clearly we're looking at what we expect to happen in this market, what we expect to be able to deliver in terms of integration benefit between the assets and that doesn't come immediately in the first part year that's going to be something that builds. Ashley may want to add to that?

Ashley Almanza - Chief Financial Officer:

Yeah the comment I made earlier was that we expect that to build over the next three to four years. And to put a more direct answer to your question I would expect that contribution to at least double over the next three to four years.

Frank Chapman – Chief Executive:

I think the important thing here and it's worth underscoring one more time even thought I did mention this in my remarks. It is not our intention to become a large-scale utility operator of electricity in - power generation in the US. What we're doing here is something, which is absolutely integrated with the existing gas business that we have.

So it's a very focussed and it's a limited acquisition of power generating capacity in a market where we already are busy with gas. And its purpose is to extract the maximum possible value from that existing business.

We're only going to make these investments where we get economic returns, which are consistent with the rest of the business. And if we look at the fact that power has always been, certainly since I started with the company more than ten years ago has been part of our strategy and those assets which we have in power today actually deliver very strong returns.

So I think we have to see this in terms of a very focussed implementation of a conscious - strategy to extract value in the chain downstream of Lake Charles.

Iain Reid:
Could I just clarify something, presumably Ashley you're talking about the contribution doubling on an annualised basis, and what you indicated - what just for half a year in terms of contribution?

Ashley Almanza - Chief Financial Officer:
No I think that we're hoping to see completion around the end of the first quarter, so three quarters of a year.

Iain Reid:
Okay.

Frank Chapman – Chief Executive:
With regards to ALNG Train X we're very busy and have been with the government for sometime in looking at the further development of LNG capacity, liquefaction capacity in Trinidad. And as you know of course that when we set up both ELNG and ALNG the notion there has been that we will have enough space and - the right sort of structures in place to enable these facilities to be extended further with more and more trains as discoveries are made.

Now of course the rate at which that development goes ahead is dependent upon discoveries, but it's also depending upon the rate of growth of domestic demand. And in both Egypt and Trinidad at the moment there is quite strong domestic demand. And therefore naturally the government's focus has moved towards in this particular phase domestic demand. And you've seen therefore the next phase of development in Trinidad will be in a domestic project.

That domestic project will be 1.2 trillion cubic feet of gas, that's a substantial amount of gas, developed into a strong market, very low infrastructure costs, very low risk and on stream by 2009.

So the idea of being able to develop resources either for the domestic market or for LNG export is implicit in our business models for this type of play. So what I'm really saying is I expect in both Egypt and Trinidad for the emphasis in this coming period to be more squarely on domestic, and that's not bad news, that's good sound economic products that we can go there and more quickly monetise. And later as we move forward, depending on the rate at which domestic demand continues to grow and the rate at which resources are discovered I foresee that we will be able to move further with subsequent trains of ELNG and ALNG.

Irene Hirmona
It's Irene Hirmona at Exane I had two questions please. Firstly you gave us obviously a very impressive set of growth targets accompanied by a couple of expenditure increases. I wonder if you can say something about the planning assumptions, the economic assumptions behind that budget and what level of IRR you're looking for at those assumptions?

My second question is on LNG, you lowered the volume guidance and you raised margins more. So we are up on an earnings basis. As you describe the business it's globalising and moving into Asia Pacific where pricing of

LNG is oil related and if we take the few that the oil price has plateaued I just wonder what gives you the confidence that margins will continue to expand?

Frank Chapman – Chief Executive:
Well the thing about the short-term market is actually it doesn't comply to any contractual arrangements that are in place. It doesn't comply to any ratio of 90% of crude price on an energy equivalent basis or whatever it is. At the time when the market needs that LNG the market will pay what it has to pay.

So the way we've made money during this arbitrage is to have this enormous flexibility, virtually no volume obligations on our entire portfolio of supply, enabled with the shipping we've got, the flexible supply contracts we have to switch supplier whenever a market opportunity opens up. So when we take to Japan, or when we take to Italy, or when go into France, we are not taking that cargo there at the weighted average cost of gas into that market. We're usually taking it in there, sometimes it might be three times the weighted average cost of gas (WACOG) into there, even more.

I can think of one cargo we took which was five times the WACOG into the market. When they are short of gas it doesn't affect their WACOG hardly anything to take a marginal cargo at a very high price and keep the lights on for all their customers. It makes a huge difference to the marginal supplier that can switch the cargo.

So that's what we're aiming to do. So the sort of way you look at pricing in these markets doesn't really affect that element of our strategy. And of course if we're going to put long term supplies into these markets, which we're not doing at the moment. But if we do that in the future we will do that on the basis that makes good sound economic sense at that time under those conditions.

Ashley Almanza - Chief Financial Officer:
Can I just add to that the model - the simplified model that we've shown you today does have of course a reference price, so we're assuming six dollars. We're also assuming in that model that 70% of the volume goes to Lake Charles or Elba Island. And therefore the 30%, 25 to 30% is diverted away from those two destinations, which as I said early is less than we've consistently achieved actually.

Frank Chapman – Chief Executive:
What he's saying of course is that we've not made ridiculous assumptions underpinning this thing.

So I think that's right I mean we're assuming here a basis, which is much less aggressive than the actual performance we have already achieved.

Ashley Almanza - Chief Financial Officer:
On PSV, sorry just to answer your other question, our project screening values haven't changed at all. We look for a real rate of return, 10% after tax in the upstream and as above we screen that over a wide range of prices. Price is just one variable in our evaluation of the risk reward balance for each of the investments that we look at.

Neil Perry:

Thanks it's Neil Perry from Morgan Stanley. Ashley commented that you're locking in some of the higher margins available out to 2009. Can you talk a little bit about what that means and the sort of economics of that in LNG? And then - to whatever extent you can.

And then secondly, Oman seems to have got quite a lot firmer during the course of this year. And I appreciate you say you bring gas skills to the project but what exactly is it that is the key to make the Oman project fly in terms of the dynamics of the reservoir or the drilling. What is it that actually makes that project go?

Ashley Almanza - Chief Financial Officer:
Neil, on the LNG, it's really within the tranche of 30% that we're assuming, we don't know but assuming would be marketed away from our home base destinations if you like. We've been able to replicate the benefit that we get on an ongoing basis from arbitrage in some term contracts.

So we've struck term contracts that effectively deliver a price to us, which is equivalent to quarter-to-quarter arbitrage, so it’s a “higher of” pricing formula.

In the model we're used here - where we're assuming 30% goes away from US or home market, around half of that has been contracted for a period, a medium period - certainly beyond the period that we've given guidance here, so throughout this period. Does that make sense?

Neil Perry:
Which countries?

Ashley Almanza - Chief Financial Officer:
We're not really in a position to - it's not in our shareholders interests really to start identifying customers and countries.

Frank Chapman – Chief Executive:
And just one more question, which was over Oman. And the situation there of course how has our skill sets put us in a good position here? Well there are two parts to this question and I'm going to answer one of them. One part is how were those skills instrumental in us securing the opportunity in the first place? And the second bit is what skills do we have to make a success of this now we've got it.

If I answer the second part, the issue here really is that this is a tight gas condensate reservoir, it's quite liquids rich too. And when we look at the work we've done in India for example, in Tunisia, in Kazakhstan, in South America, you know these are all examples of where we've gone into quite tight reservoirs and shown our ability to produce hydrocarbons from them. And of course when we put together a capability document to demonstrate to the Oman government that we were the right sort of company to be able to do this we were able to layout a very good set of credentials as to our ability to make a success here and they of course have accepted clearly that BG is qualified to do this.

What we're now doing of course is shooting 3D seismic, and we'll be drilling our first well, the first wells will be straightforward vertical wells and then later on we'll be extending these into horizontal wells, fracing and so on to test the ability to increase productivity from single wells, that will be the key to making economic success.

So I'm actually very optimistic that we've got a very major project here and it's one of the big things that happening in our portfolio right now. Peter Dranfield actually, asset general manager sitting there, a very smart gentlemen with the white hair and he's responsible for making it happen for us.

Gordon Gray:
Thanks Gordon Gray at J P Morgan, two questions if I can. One of the areas of relative disappointment so far at least has maybe been your acreage in Canada. I wonder if you can give us a few words on there and prospective progress there.

Secondly I wonder if you can give us some rough guidance presentationally what the affect on your growth target would be from a mark to market from your reference $40 price to the current crude price environment?

Frank Chapman – Chief Executive:
Canada this is a different sort of play. We've said all along that this play is very different to the rest of our portfolio. These are small accumulations of tight gas; actually we've been very successful in Canada. More than 50% of the wells we've drilled there have been successful. The thing about Canada is in the current form the business will not make a large difference, not a material difference to our reserves base, to our production and so on. Nonetheless it is a profitable operation.

The point of going into Canada in this way in the first place was to establish a very strong footing in the country and to use that as a springboard if you like to move into high impact opportunities both in Canada and in Alaska. And we've been busy doing precisely that.

Ashley Almanza - Chief Financial Officer:
If you took the production chart and put it lets say on the same basis as the framework for growth which was showing at $55 which was near enough current conditions, there would of course be an impact on PSC effect. But that impact would actually be quite modest, certainly less than a percent on that period on the CAGR.

Edward Westlake:
Yes it's Edward Westlake. Two questions, the first one obviously you're making some good profits by shifting cargos around the world and you've mentioned the flexibility. Are you seeing any movement in terms of governments, in terms of contract clauses trying to claw back some of that profit that you're making?

And then the second question, obviously domestic sales are going very strongly in Trinidad, they're going strongly in Egypt as an alternative to LNG. Can you talk a little bit about the relative pricing of gas into domestic markets as opposed to export, thank you?

Frank Chapman – Chief Executive:

Governments - of course the great game that's always been like this is how big is the pie and how much of it belongs to you and how much belongs to me? This is the normal part of our business. And our aim of course always is to try and make the pie bigger so there's more to argue about.

We have been at pains to ensure that when we negotiate these supply contracts that it's extremely clear over what flexibility in the supply contract exists and who's entitled to benefit from that. This is extremely clearly laid out. So we have not encountered a single instance to date whereby there has been a disagreement about who is entitled to enjoy the benefit or not.

Now of course in many of these contracts there is by virtue of the PSC, which exists when you net back to the upstream a higher margin, and some of these contracts receive the benefit in that way, the government participates. That's not the same in every contract some contracts the reward is embedded within the marketing company. So it's different from case to case.

So I'm happy to confirm that we've been extremely conscious about ensuring there's great clarity in that area.

Now in terms of domestic sales one thing we mustn't do here is to assume that domestic sales are not as good as LNG. That's not the case, I mean it's a less capital intensive, shorter lead time, generally lower risk development and you know in the case of Trinidad we were delighted to get - and I'm not talking prices here, delighted to get what I would regard as strong prices and strong net-backs and very sound economics for that project.

So we tend to look at these things as we should do, not in terms of whether they happen to be an export business or local market but in terms of what the returns are, which are affected of course by a whole series of things to do with volumes, capex, timing and so on. Don't read domestic market as poor returns.

Colin Smith:
Colin Smith from Dresdner Kleinwort you look like you're spending about $5 a barrel on exploration at the moment and the E&A write-off is you know growing pretty rapidly. Can you talk a little about what you think is a longer term or a medium term outlook for exploration spend and sort of provide some guidance about the thinking about the levels that you're at the moment? I mean clearly with what appears to be a lot of success, which is good, but it is quite a big number.

Frank Chapman – Chief Executive:
You can take the trend down the future. Let me just give you philosophically what we're trying to do. Of course the company has grown enormously, you've seen from the production curves, you've seen from the profitability and so on the way the company has grown and because it's grown at that rate and because we have an aspiration to continue that strong, relative to the rest of the industry strong growth rate it means that we have to work extremely hard to replenish the portfolio. Not just to replace the exploration prospect inventory what we've taken out, but to replace it and add a considerable amount more to feed the longer-term growth.

Now when you do that you do add a lot of expense, both in terms of the cost of acquisition, although I would say that we've done that extremely efficiently. You know we've added about 50% acreage to our portfolio for something like 130, 140 million pounds, which I think, is extremely cost effective. And you get that coming and then straight away after that you get another wave and G&G and G&A work, as you work this acreage in the limited period you've got, some is longer than the other, before you enter sort of partial relinquishment states.

Do you want to say something about the pattern of expenditure? So you should not be surprised about seeing us really having a go because the company has just stepped up to a much bigger size and we need to feed that for the future.

Ashley Almanza - Chief Financial Officer:
I'll come to the trend in just a minute and the spending pattern. I want to just add to something Frank said. Apart from obviously the requirement to fill the hopper so to speak I think that the other dimension to this is that we have seen that we have advantaged access to new opportunities, particularly in some markets.

Our gas focus, our capability to monetise gas, but I even think our style and approach has worked in some places and it seems to me that we ought to take advantage really and get as many of those into the portfolio at a time when competition for - for those sorts of opportunities is quite brutal.

On the pattern, the spending pattern. We've gone from 300 to 600 in a very short space of time and we don't expect that trend to continue. The rate of growth you're relieved to hear that we don't expect that to continue. At or around this level perhaps with modest growth, the unknown variable of course is what's going to happen to cost of seismic - cost of rigs, some time in the generation but too early to say.

The other thing is as the work programme evolves we would hope and expect that you would see more A and less E if you follow my drift. So that you would see a change in the balance between expense and total spend. But I don't expect the previous rate of acceleration to continue.

Mark Ianotti
Mark Ianotti Merrill Lynch. Frank I notice what used to be called an Atlantic Basin LNG portfolio has now been redefined a global LNG portfolio with some dots on Asia. Can you say anything on maybe ideas of plans you may have to grow your Asian LNG exposure either inorganically or organically and where across the LNG value chain you think there's greatest value to be had? And also just a linked question if I may I do notice also that despite another year of good growth Comgas doesn't really rate a mention this year. Is this business still central to your overall strategy or can we think of Comgas as being periphery now in the broader context of what you're doing in global LNG?

Frank Chapman – Chief Executive:
Well we'll broaden that answer to T&D generally and we can talk about that. I mean essentially what we're doing in Asia Pacific at the moment is that we are using the assets we've got to establish new markets and customer relationships. And that's exactly what we've done elsewhere. We've come at this from a market perspective. Now as that develops of course we would like in due course for the right opportunity to secure equity supply and we're looking at a number of things.

We're going to be quite selective about how we do that. But what we're aiming to do is to develop as we've done in other markets a market position ahead of equity LNG supply. So we're going to look at things, you've seen some early work that we've been doing in PNG for example, it's not the only thing we're doing. And we're going to take our time and be quite selective about getting the right set of assets that will allow us in due course to make a proper step out in terms of equity supply in that area.

In the meantime, I would argue that our LNG business now has global reach already.

Ashley Almanza - Chief Financial Officer:
On T&D our strategy of course is market led gas focussed and you can broadly I think break that down into a developed market with a declining indigenous supply and therefore a supply opportunity and developing low markets with gas penetration and huge potential for long term growth. And of course Comgas and our India assets fit into that latter category. We're in two of the three fastest growing gas markets in the world in Brazil and in India.

Comgas grew volumes at 10%, operating profit 27%, Gujarat Gas distribution grew by 30% plus in 2006, Mahanagar Gas 10% in a gas constrained market. So although in the context of the overall group the businesses are still quite small because the rest of the group is growing rapidly those businesses are growing rapidly and generating good returns. So we certainly don't regard them as peripheral.

Dave Thomas:
Yeah it's Dave Thomas of Citigroup, Frank on slide 27 you look at the E&P assets that are currently producing and show that there's only a modest decline out into the next decade. Could you say what your assumptions are on there, you're including expansions presumably at Karachaganak and India within there. And also could you say of your capital programme going forward how much of that proportionally is actually in those expansions?

Frank Chapman – Chief Executive:
Well of course what we're trying to do here is to give you an insight into the ability of the existing resource base to sustain production. So let me take a good example of that. If I think about the Nile Delta, the West Delta Deep Marine concession there are strung out there a series of infill wells, compression, well head platforms, new sub sea completions and new wells and so on. And the capex required for that is not - it won't be one of our most major projects but there will be capex required to extend the production life of those assets.

Now those types of step outs, infill drilling, larger diameter pipeline, installation of compression, all of those types of things are embedded within this lengthened sort of long flat production profile. *And further phases of existing producing assets, such as Karachaganak, are included.

Now it wasn't our plan to give a great long list of them. Our plan here was to say look this is actually quite different. You know sometimes we see curves that show 25% per annum decline rates in resources here we're looking 15% decline rate in nine years.

** Transcript amended to correct statement*

Of course when you see 25% decline rates in oil fields don't think they're not drilling infill wells and they're not doing whatever they have to do. They're doing that too. So I think it's a fair point we're making, it's a very usual and very valuable facet of our portfolio.

Matt Lanstone:

Thanks Matt Lanstone Goldman Sacs. Could you talk a little bit about Bolivia in terms of the current status of negotiations with the government, maybe indicate for the longer-term production profile what sort of slice we could attribute to Margarita Full Field Developments? Some of the other companies working in that region have recently made rather more optimistic noises about what the returns actually are likely to look like once we get through the negotiation phase, thanks.

Frank Chapman – Chief Executive:

Yeah well Bolivia if I think about Bolivia the basics are quite strong. There's a lot of gas there and in Margarita very liquids rich gas production. We've got a country that clearly needs to have that resource developed. We've got regional markets in terms of Brazil and Argentina that want very much to buy that gas.

The terms that we negotiated and agreed with the Bolivians are such that the ongoing operations today were rendered pretty much - basically stayed flat with the economics and profitability that we had before these new terms were introduced. And therefore the sort of underpinning fiscal framework is going to justify I think and help to make incremental investments in those types of positions.

However when we take a look at Margarita full field, which is, BG net, north of half a billion barrels oil equivalent. When we look at that sort of investment the terms are quite tough. I think I called them challenging last year when we referred to this negotiation at our last quarter. And I think it will take us in that environment quite some time to assess the viability and risk dimensions of making those scales of investments.

Now the one thing that's very good news for you I hope is that we don't need Margarita full field to reach the targets that we are showing here. I want to emphasise as well that all of - practically all of the reserves for these fields for Margarita full field are in un-booked resources. So it's neither in our 2P reserve base, nor is it necessary for us to reach our guidance range of production.

So it's a good thing to have in the portfolio, we're going to work hard at it and we're going to be quite selective about how we move forward with that project.

Lucas Herrmann:

Lucas Herrmann from Deutsche Bank, I'd be grateful if you could clarify something one of the comments you made was that the average production in the UK continental shelf was 50 million barrels of oil equivalent. How much of that is gas, how much would the Jasmine East add to that and what would the additional J Block discoveries that you mention on page 64 add to that also?

Frank Chapman – Chief Executive:

Well I'd like to refer you if I may to the diagram in there where we've attempted to show the value and the production contribution from each of these things. Largely I could say probably around 80% of our production in the UK or even more than that more than 90% of our production in the UK comes from gas or gas condensate fields. And of course in that sense I'm not differentiating between gas condensate and oil. Sorry I'm putting the condensate associated with gas in the category of gas. So most of our production in the UK is gas or liquids, which are associated with gas production.

Lucas Herrmann:

And how much would Jasmine East add to that?

Frank Chapman – Chief Executive:

I think in the UK, my colleagues here will remind me if I'm wrong, I think in the UK only 5% of our production is black oil. It's a very low number like that.

Chris Rowland:

Thank you Chris Rowland at Ecofin I'm very interested in your integrated US strategy. And I really wanted to ask - you talk about the integration benefits taking a few years to come through. Is that because there are still further tuck in acquisitions you're looking for, or it's capex related. And also whether there are opportunities in other areas, such as the UK or Europe to build that integrated platform?

Frank Chapman – Chief Executive:

No I think it's really the drivers are the time it takes us to fully integrate those operations into an integrated energy business. I mean we've not bought these assets just to run them as stand alone power plants. So we're going to use those to choose how we sell, when we run them, when we don't, when we run them on diesel and when we run them on gas and how we manipulate those assets of ours in this overall market position.

And there are certain existing arrangements in terms of how the markets are managed for the existing owners that need to be unwound so that we can take over the full control of all of this. And that will lead to in time these contributions building.

Chris Rowland:

And establish that kind of platform elsewhere the UK or Europe?

Frank Chapman – Chief Executive:

I think for the moment that each of these decisions is going to be taken very much on an integrated basis. So where we've got an integrated business and we can see an opportunity to make added value by having power in the portfolio and allowing that - designing that to enable us to extract more value from an existing gas business that's where we'll do it. What we're not going to do is to become an unconnected, a disaggregated power generator in some place somewhere.

Sir Robert Wilson – Chairman:
Let me wind up this session. But I'll ask Frank and Ashley to make themselves available for a little while and I think I'll draw it to a close at this point.

Frank Chapman – Chief Executive:
There is if I may just one clarification, I did say about 5% I was referring historically when I talked about black oil and I wasn't accounting for the effect that buzzard - production will have as we go forward. So I hope that was understood thank you.

Sir Robert Wilson – Chairman:
Thank you very much.