



BG Group

2007 Fourth Quarter & Full year Results and
Strategy Presentation

7 February 2008

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Sir Robert Wilson:

Good afternoon ladies and gentlemen; I'm Robert Wilson Chairman of BG Group and I'd like to welcome all of you to our Results and Strategy Presentation this afternoon.

All of you I suspect, and certainly almost all of you know both Frank Chapman and Ashley Almanza our CFO. I take too that by now you've all had a chance to read the preliminary results announcement that we released this morning, and I hope that you agree with us that this is once again a very satisfactory performance and yet another step in the remarkable progress that BG has made in the ten years since the old British Gas was split into BG Group and into Centrica.

Now I suspect that for many of you 2007 is going to be recognised in the BG context as the year in which Tupi was discovered. I think that's probably inevitable but it is also perhaps a little bit of a pity from our perspective if that obscures some of the performance in other parts of the group. And I'll just mention one or two examples of that.

An obvious one is the continuing outstanding performance of the LNG business. But another important highlight during last year was the improved performance of Karachaganak which is our biggest asset. And beyond that, for example I could identify the continued very impressive performance Comgas which is very rarely noted and remarked upon by institutions and investors, even though it's actually continuing to make a growing and important contribution to us.

As for exploration, well obviously Tupi is of great significance to us. You're going to hear a lot more about that this afternoon and we expect it to underpin our growth for quite a while ahead; it will be a key component of that growth.

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But you know Tupi wasn't just one lucky win at the roulette table of exploration. It was one part of a very widely spread portfolio of exploration opportunities that we had covering a range of both geopolitical and geological environments. And speaking for myself I'd be very disappointed if we don't see some further exciting results out of that portfolio during the next couple of years. Now that's enough from me, on with the presentation, Frank.

Frank Chapman:

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 with me is Ashley Almanza, our Chief Financial Officer. We're here today to set out our results for 2007, and to tell you about our plans for the future. Before we begin, let me show you this legal disclaimer, which you'll find in your slide packs.

So, what are the key messages we'd like you to take away today? First, it's been another year of good results, with earnings per share up by 11%. This was driven by operating profit, which rose to a new record of 3 point 25 billion pounds, continuing the climbing trajectory maintained since 1996.

Second, LNG delivered excellent results – indeed beyond our most demanding targets. Our understanding of the possibilities of this business continues to evolve. We'll give you further guidance today to help you appreciate the intrinsic and durable value of this unique global LNG position.

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Third, we're confirming our guidance for the earnings growth profile out to 2009. Fourth, our total reserves and resources increased by more than 2 billion barrels of oil equivalent last year.

This means that since the beginning of 2006, we've added around 3 billion barrels of oil equivalent, an increase of 42% in just two years - bringing our total resource base now to more than 10 billion barrels of oil equivalent.

Notably, we have achieved this against the grain of PSC price effects; we have achieved this economically; and in a highly competitive environment, where access to resources is one of the industry's new and growing challenges.

Finally, you'll want to form a view of the long-term value of our total resource base. Today, we'll update perspectives on future growth. We'll confirm a 6 to 8% growth profile out to 2012. And, more significantly, we'll indicate the inherent potential to sustain a 6 to 8% compound annual growth rate all the way out to 2020.

Our gas chain expertise, our focus on delivery, and the strength and diversity of our low-cost and long-life portfolio provide us with an excellent foundation for value creation. And in our growing opportunity set, lies the essence of our future. A future which I view as bright and positive – a view which I hope you will share after today's presentation.

So how are we going to structure this session? I will begin with a recap of our strategy, and then Ashley will brief you on our 2007 results. I'll then update you on some of the key aspects of our portfolio, and provide insights into some of the drivers of future growth. Finally, we'll conclude with some perspectives on the longer-term sustainability of our proposition; after which we'll be happy to take your questions.

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First, then, let me begin with a brief overview of our strategy – which is fundamentally unchanged from the story I have outlined before.

Our proposition is straightforward. We focus on specific, high-value markets, then secure competitively-priced resources to connect to those markets. We combine a deep understanding of global gas markets, with an excellent track record in finding and commercialising reserves.

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. And we aim to build enduring relationships with key stakeholders, by seeking to align our interests and their objectives and priorities.

Now, although our strategy is stable, this is not always mirrored in the business environment. So, let's begin by considering how our portfolio and our approach position the company positively in the context of key industry trends. High commodity prices have been with us for some time, and many agree have probably now moved structurally to a new level.

Our portfolio generates a high rate of conversion of price to operating cash flow. This means we can pursue our growth goals, and at the same time continue to increase dividends.

Of course, for the industry, high prices drive the inflationary cycle, ramping up costs and leading to project delays. Our distinctive long-life, low-cost asset base is economically robust over a wide range of prices and unit costs.

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In an inflationary environment, this allows us to continue to grow shareholder value, whilst maintaining rigorous capital discipline in all our investment decisions. And, at the same time as projects are being delayed, demand for LNG is increasing from incumbents and new entrants.

We are well positioned to respond to these market conditions, through our secure, flexible, long-life supply sources, with future growth potential.

Governments of resource-rich countries are increasingly focused on balancing their domestic priorities against the value derived from exports.

Our approach is to seek to understand governments' aims, and, where possible, to align our goals with theirs, bringing an integrated approach to realising a government's upstream and downstream ambitions.

Finally, there's the challenge of replacing reserves – and here we are faring well, as we will see in more detail later.

Of course our strategy and our aspirations only stand up if they are accompanied by performance. So, I'd like to ask Ashley to brief us now on the 2007 results.

Ashley Almanza:

Thank you Frank; and good afternoon ladies and gentlemen. Before we review the operating segments, I'd like to summarise the Group highlights.

Operating and financial performance was good across the Group and our LNG business stood out with excellent results.

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Earnings per Share rose by 11%, and, at constant upstream prices and US dollar exchange rates, the underlying increase in EPS was 17%.

Cash conversion remained strong; the Group made good progress with the buy-back and we ended the year in a very strong financial position;

The outlook for production, earnings and cash flow is robust, and this has enabled us to re-base the dividend, with the Board recommending a 30% increase in the full year dividend. Those are the highlights; now let's look at the operating segments in a bit more detail.

This slide shows underlying production growth after allowing for the disposal of assets in Canada and Mauritania and for the CATS disruption which, on its own, cost us about 5 and a half million barrels oil equivalent. Adjusting for these items, underlying production growth in 2007 was around 5%.

During the year, unit opex increased by 14% in sterling terms, due to higher maintenance costs.

The increase in dollar terms was 25%, due to the translation of sterling costs at a higher exchange rate. Cost inflation remains a feature of the current operating environment.

In 2008, we expect our unit opex to be around 5 dollars and 80 cents per barrel, an increase of about 10%.

As you can see from this chart, BG is in a very good position to maintain its top quartile cost performance.

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Our underlying performance in E&P was good but the financial result was held back by the impact of the weaker US dollar and the CATS disruption.

Exploration expense increased by 64 million pounds in 2007, due to an extensive G&G program, particularly on the new acreage acquired in recent years.

Our investment in a larger program is producing good results, and Frank will cover this in more detail later.

For 2008, our total exploration spend will be around 750 million pounds, with an estimated P&L charge of around 350 million.

The net effect of movements in commodity prices and the US dollar gave rise to an adverse change of 127 million pounds at the operating level; and the disruption of the CATS pipeline cost us 120 million pounds. Excluding CATS and the effect of asset disposals, underlying E&P profit grew by 7% at constant prices and US dollar exchange rates.

In a moment we're going to look at our F&D costs. But first, let's look at the proved reserve changes that underpin this metric.

This chart starts with the substantial, positive revisions to existing reserves, principally due to the promotion of probable reserves. The second bar shows reserves booked from new developments and new sales agreements on existing fields. Together, these two items make up underlying performance which replaced 107% of 2007 production.

The next item shows the effect of acquisitions and disposals, a net reduction of 8 million barrels of oil equivalent, principally in relation to Canada and Mauritania.

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The Brent oil price on the last day of the year was 96 dollars per barrel, a rise of 37 dollars over the price at the end of 2006. This had the effect, under SEC rules, of reducing proved reserves by 117 million barrels oil equivalent, most of which related to Karachaganak.

In aggregate, the total SEC additions to reserves, which takes into account all of these changes, was 110 million barrels oil equivalent; In 2007, BG's total resource base increased to 10 billion barrels oil equivalent.

The planned development of this resource gives us confidence that, going forward, BG will continue to enjoy strong and sustained organic reserve replacement. Again, Frank will discuss our resource base in more detail.

As you know, costs continue to rise across the industry – and on this chart we've extrapolated peer performance to allow comparison with BG's performance.

As with unit opex, you can see that BG continues to perform very well against our competitors. And here, too, we expect that the planned development of our significant resource base will help BG to maintain a top quartile position in F&D cost performance.

Our LNG business turned in an excellent performance in 2007. In shipping and marketing, operating profit in the fourth quarter rose by 27 million pounds to 145 million pounds, as BG was able to respond to a shortage of supply in the Far East. For the full year, the volumes we marketed increased by almost a third; and, despite a weaker exchange rate, operating profit in shipping and marketing rose by 39% to 463 million pounds.

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This result once again underlines the value that BG is able to create with its substantial and flexible, low-cost portfolio. Profits from liquefaction in the year rose 22% to 127 million pounds as Train 4 of Atlantic LNG moved onto commercial terms in May.

Egyptian LNG also improved its operating performance and received higher tolling income.

For the segment as a whole, operating profits rose by 48% to 521 million pounds. This represents a step change in the financial performance of this business. The positive market conditions we saw in the second half of 2007 have carried over into 2008, and we expect the first quarter this year to be very strong in our Shipping and Marketing business.

Turning now to Transmission and Distribution. Total operating profit in T&D was 247 million pounds, a full year increase of 7%. However, as this chart shows, a stronger underlying performance is masked by the disposal of our equity interest in the Interconnector part way through the year.

Comgas delivered another good performance. A 5% increase in volumes, and a stronger exchange rate, lifted operating profit by 25 million pounds to 211 million pounds.

Our T&D businesses in India also performed very well and contributed an operating profit of 38 million pounds, an increase of 12 million pounds as volumes grew by 9%.

In the power segment, total operating profit increased by 23%, mainly due to the acquisitions we made during the year. These new assets made a part-year contribution in 2007, and this is expected to increase progressively as we integrate the businesses and enjoy a full year contribution.

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I'd like to look forward now and provide an overview of the Group's outlook, starting with E&P production growth.

This chart shows E&P production out to 2012.

We've used the chart before, and previously it showed annual growth of 6 to 10%. The picture has been updated to allow for three changes: - first, the Canadian asset disposal; - second, a change in the phasing of domestic demand in Trinidad, in 2009; - and third, the deferral of a number of projects including Gaza Marine, Jackdaw and Margarita.

On this basis: - production in 2009 is expected to be between 680 and 710 thousand barrels oil equivalent per day; - and, production growth to 2012 is expected to be in the range of 6 to 8% compound per annum.

Now – I'd like to emphasise two points with respect to this picture.

Firstly, because only 20% of our total resource base has been booked as proved, this growth profile has the potential to be sustained for many years beyond 2012.

Secondly, BG's production profile is relatively **in** sensitive to the effect of price changes.

This slide shows the geographic location of our production base. PSC's obviously vary from country to country and contract to contract. Not all contracts have the same price sensitivity.

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In BG's case, around 80% of our production has little or no sensitivity to price change. Only our entitlement to Karachaganak production has any meaningful sensitivity to price change.

This means that under a wide range of price changes, the impact on BG's production in 2012 is less than 15 thousand barrels of oil equivalent per day.

Let me repeat that: Under a wide range of price changes, the impact on BG's production in 2012 is less than 15 thousand barrels of oil equivalent per day.

Our next chart describes the financial outlook for our LNG business. And this has improved very substantially. First, let me draw your attention to the assumed gas price.

This financial framework now assumes a Henry Hub price of 7 dollars and 25 cents per million BTU, up from the 6 dollars used last year.

Now, as you know, our liquefaction assets are, in the main, tolling plants, and therefore relatively insensitive to price changes. Due to a combination of operational and revenue improvements, we are now increasing the estimated return on liquefaction from 13 to 15% in 2008, rising to 16% in 2009.

In shipping and marketing, we continue to see the global supply shortage persisting for the foreseeable future. This, together with BG's global marketing capability and our flexible, low-cost portfolio, provides us with the confidence to re-base our estimate of future returns.

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As a result we are raising the estimated EBITDA margin for shipping and marketing from 18% to 30%, for both 2008 and 2009. This assumes that we divert between 30 and 40% of our supply away from the United States. It is clear that this business is set to make a very substantial contribution to the Group.

Our next chart will be familiar to you. It illustrates the strong underlying EPS growth that we're aiming to achieve out to 2009, based on the firm projects in our plans.

Over the past three years, as we've increased investment in the long-term value of the company, our profit and loss account has had to absorb rapidly-increasing exploration and business development spend. This has been more than offset by operational improvements and growth across the Group.

I'm therefore pleased to confirm that the outlook for EPS growth is unchanged, and remains a multiple of the industry average. Let me now comment on capital structure and dividend, starting with planned capital investment.

We are increasing our planned capital investment over the next two years. The main changes are shown on this slide: - first, we've increased our planned exploration expenditure by 300 million pounds; - secondly, we have an additional 900 million pounds inorganic investment, comprising 600 million pounds on power acquisitions last year, and 300 million pounds on the recently announced transaction with Queensland Gas; - thirdly, we have experienced cost inflation of around [8%], and this adds 700 million pounds, which is almost entirely offset by the effect of the weaker US dollar.

Overall then, we have an investment programme of 8 point 8 billion pounds for the period 2007 to 2009.

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We've invested 2 and a half billion pounds in 2007, and this leaves 6 point 3 billion phased more or less evenly over 2008 and 2009. During 2007, BG made excellent progress in growing its resource base and in gaining access to new business development opportunities.

In view of our materially enhanced opportunity set, we have no plans for a buyback programme in 2008. As before, we will keep our capital structure under review.

The Group's long-term financial position and strong prospects allow us to re-base the dividend, and the Board has recommended a 30% increase in the full year dividend.

Going forward, our policy will continue to be one of providing real, long-term dividend growth in line with underlying earnings growth.

Let me end now by summarising BG's performance and outlook:

- the Group delivered a good operating performance in 2007 and EPS rose by 11%.
- At constant prices and US dollar exchange rates, underlying EPS rose by 17%;
- the outlook for E&P production growth remains strong, and the prospective margins available from our LNG business have been materially enhanced;
- we have a large and diverse opportunity set, and we are increasing our planned investment;
- the Group's financial position and strong outlook for cash flow and earnings growth has enabled us to re-base the dividend, and the Board is recommending a 30% increase in the full year dividend.

Thank you ladies and gentlemen. That concludes my remarks, and now I'll hand you back to Frank.

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Frank Chapman:

Thank you, Ashley. I would now like to address prospects for future growth, by briefing you on progress with key projects and on some of the developments in our portfolio.

10 years ago, the UK was our dominant focus. Now we have a significantly more diverse portfolio, with eight core countries of operation, three potential core countries, and interests in many more.

It's a picture of largely organic growth; carefully targeted opportunities; and enduring value creation.

We've also developed a diverse range of skill sets, across a spread of geographies and a range of plays – onshore and offshore; conventional and deep water; carbonates and tertiary deltas; HPHT and tight gas.

Over the last ten years, we've been involved in five of the fifteen largest discoveries in the world. And we add to that the international deployment of legacy downstream skills, leveraged now into growing distribution businesses in developing economies, and our powerful global LNG business. So the global portfolio and skill sets are broadening and deepening.

Against that background, let's have a look at some of the key opportunities in more detail, beginning first with the contribution expected from existing assets.

Last year I talked about the longevity and continuity of our exploration and production profile. There's essentially no change in the picture this year – our exploration and production business remains characterised by a long and firm production base from assets already on stream.

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We expect assets producing 600 thousand barrels of oil equivalent in 2006 to produce around 530 thousand barrels right out to 2015. That's a decline rate of about 1% per year.

This profile includes firm plans for development and expansions; expansions which present significantly lower risk than new developments in new settings. And I believe that, in time, these legacy assets will yield further potential. But what about the production and volume profiles in our other business segments?

Here we can see that our LNG business also exhibits the same long, firm foundations – in both contracted supply volumes, and in liquefaction.

We expect our existing contracted volumes of 12 point 6 million tonnes per annum to continue to supply markets to 2020 and beyond. And our power generation business also exhibits this long, firm profile – and is accompanied by Transmission and Distribution characterised by solid growth over time.

Taken together, our total portfolio, encompassing all business segments, can sustain output over a very long period purely on the basis of assets already on stream and their associated expansions.

New projects will therefore contribute to net growth, rather than simply offsetting a decline in legacy assets. So let's look now at some of the specific opportunities which will build on these strong foundations.

The main trends in today's LNG markets are now established and are likely to characterise the LNG outlook for the foreseeable future.

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Demand for LNG is being driven higher by underlying economic growth, the emergence of new markets, security of supply and environmental concerns, compounded by disruptions in the traditional LNG markets. And against this picture of rising demand, new supplies are not keeping pace.

Cost escalation, construction capacity, governments weighing domestic priorities against export propositions – all of these factors are serving to slow down the arrival of new LNG supplies.

Now, against this background, our portfolio benefits from advantages in longevity, cost structure and global flexibility. Have a look at this. LNG is a pure commodity where the only form of sustainable competitive advantage is cost leadership.

These charts illustrate how strongly we are positioned in this regard, with an advantage that is effectively locked-in, given that our capital asset base, in liquefaction and regasification, was largely established ahead of the current inflationary cost cycle. It's extremely difficult for this cost structure to be replicated in the future by new entrants. So it's a durable advantage flowing from low cost structure and the longevity of our existing liquefaction facilities, regasification arrangements, and long term offtake agreements, extending out beyond 2020.

We've also contracted 2 point 25 million tonnes per annum of new supply, from the Nigerian LNG Train 7 project. Last week we announced an alliance with the Queensland Gas Company to develop an LNG export facility in Eastern Australia. We expect this to add between 3 and 4 million tonnes per annum to our portfolio. And we've agreed Heads of Terms with Brass LNG to supply 1 point 7 million tonnes per annum.

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Meanwhile, we continue to develop OKLNG with our partners, to lift 1 point 6 million tonnes per annum from the first two trains. Beyond this opportunity set, we continue to explore for new reserves in Egypt and Trinidad and Tobago. Our goal remains to build our competitive, long-term supply portfolio to at least 20 million tonnes per annum by the middle of the next decade. Now, whilst global demand for LNG is strong, the market does not call for supply in a predictable or uniform way. Different markets can and do have very different demand patterns, and significantly different service requirements. Flexibility is key; and whereas the majority of incumbent players have more traditional fixed destination contracts, we have built our business using the depth and liquidity in the US market as the anchor.

In this market we can, where necessary, meet US volume obligations from traded hubs, releasing LNG cargoes for diversion to premium markets as our customers' needs change.

The scope and structure of our LNG business was just a theoretical proposition eight years ago. Today, through a confluence of our technical, commercial, marketing and shipping skills, it has become a value-enhancing reality.

During 2007 we sold cargoes to 9 of the 17 LNG importing nations globally - and we re-marketed more than one-third of our cargoes to capture higher-margin opportunities. In fact, we marketed about 50% of all Atlantic Basin cargoes sent to Asia.

Meanwhile, in the US, we imported 55% of the LNG entering that market. And in the US, our ability to add value extends well beyond the regasification terminals.

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As this slide shows, we have a portfolio of integrated assets, including power generation, storage and contracts which give us access to pipeline capacity connecting multiple destinations. We also have facilities currently under construction to enable extraction of natural gas liquids.

So we can add value by responding swiftly to short term and seasonal demand swings across multiple regional markets – whether in the form of gas or NGL's from our LNG volumes, or electricity from our power assets.

So in summary, I would highlight: - the scale and longevity of our existing portfolio, and opportunities to expand that base; - our competitive cost structure, throughout the value chain; - the flexibility inherent in our business model – anchored in the scale and liquidity of the US market, and serving global customers; and the control of the time, location and form of US energy sales, adding value to the LNG proposition.

These are the factors that come together to make our LNG business unique, and to underpin the substantially increased guidance that Ashley presented earlier.

I'd now like to give you a brief overview of the key developments across the rest of our portfolio, beginning in the UK. Since announcing the Jasmine discovery last year, we have established reserves in the Northern Terrace and added around 20 million barrels oil equivalent to our reserves range.

There may also be a further extension to the north with a potential 80 million barrels of oil equivalent. We'll need more time to appraise these opportunities, and now expect first production in 2011.

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On Jackdaw, we have been appointed operator of block 30/2c. We were also appointed operator of block 30/2a, and increased our equity there. Appraisal drilling is underway, with results later this year, and further appraisal in 2009.

Buzzard, the largest exploration and production development in the UK in recent years, came on stream early last year. It's producing at up to 220 thousand barrels of oil equivalent per day, around 10% above nameplate capacity. In addition, gross reserves have increased to more than 600 million barrels of oil equivalent, and we see potential for further increases in future. An H2S sweetening platform will be required from 2010 for full field recovery.

We see the UK production profile of 50 million barrels of oil equivalent being maintained out to 2012, with potential to extend this out to 2015, from enhancements of existing fields, including Buzzard, and from exploration potential.

In Kazakhstan, our Karachaganak asset had an excellent year; with record production which maximised liquids export to the higher value Western markets. The Fourth Stabilisation Train, which will increase export capacity to 10 point 3 million tonnes per annum and gas to 9 billion cubic metres per annum, is on schedule for start-up in late 2009.

Some partial shutdowns will occur in 2008, to make way for Train 4 tie-ins, and improvements aimed at enhancing plant productivity and operating envelope.

The new Gas Sales Agreement signed last year, together with agreements on export capacity to western markets, have paved the way for the sanction of the Phase III expansion this year.

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In the meantime the front end engineering and design work for the Phase III project has progressed to more than 50% complete. The project has been expanded to include LPG recovery. Our goal is to develop 2 point 4 billion barrels of oil equivalent, of additional reserves, at low unit cost, and to begin production by 2012.

We now produce more than 40% of all gas supplied in Egypt, split approximately 50/50 between domestic supply and LNG, and we have continued the large-scale development of our West Delta Deep Marine and Rosetta assets.

We've almost completed interpretation of the 3D seismic data acquired across our acreage, enhancing the prospect inventory. Exploration drilling will begin on El Burg and El Manzala later this year.

As you'll know from our Q3 Statement, we've faced a number of operational challenges in Trinidad and Tobago, caused by a reduction in domestic demand and problems with Atlantic LNG Train 4. I'm pleased to report that Train 4 performance improved considerably in the fourth quarter.

The Dolphin field continues to be a real success, and we'll drill three wells this year to supply our increased domestic gas sales contract from 2009. We'll undertake further drilling in 2010, and can now see the potential for around 1 trillion cubic feet of additional uncontracted reserves in and around the field.

We're making good progress with the North Coast Marine Area Poinsettia project. And we also farmed-in to Block 5c, in the East Coast Marine Area. The first well, on the Victory prospect, is under evaluation after successful drill stem tests. Drilling of a second prospect will follow.

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In India we continue to build our activities across the full value chain: - production grew by 33%, driven by expansion projects in the Panna/Mukta and Tapti fields; - we expanded the exploration portfolio, securing a new block on the east coast; - we sold five LNG cargoes into India, and we established a new business to import LNG and market gas. And our two transmission and distribution companies continue to demonstrate steady growth.

I'm pleased to say that gross production from Panna/Mukta and Tapti has doubled since we took over the management of technical operations five years ago. Output is now 125 thousand barrels oil equivalent per day and we carry reserves of some 180 million barrels across the three fields.

Panna has been a notable success. The field has an estimated 1 point 7 billion barrels oil equivalent gross hydrocarbons in place. Developments and an extensive infill drilling campaign increased production by about 25% last year, and work continues to maximise recovery. With around 900 million barrels oil equivalent of gross hydrocarbons in place, the Mukta field also shows considerable upside potential, and in time we hope to repeat the Panna successes in this field. And in Tapti, 2007 saw the commissioning of a major new complex, increasing production capacity by around 80%.

In Tunisia, another core country, we now produce around 175 million standard cubic feet per day – more than 40% of all gas supplied – and carry 250 million barrels of oil equivalent in our reserves. Development of Miskar continues, and our second development, Hasdrubal, is now 45% complete, on schedule for first production in 2009.

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We made positive progress too in Thailand, with record production of 650 million standard cubic feet per day in 2007 – a full 14 years after first gas.

A very successful exploration campaign on Bongkot South saw estimated gross reserves increase to 1 point 2 trillion cubic feet, sufficient to underpin a standalone development, with sanction planned for this year, and first production in late 2011.

In Nigeria, against the background of a new government considering its national agenda and priorities, we've been taking time on OKLNG to review technical solutions, with the goal to reduce cost and improve economics.

In the upstream, we've acquired seismic data on block OPL 332, with the first exploration well planned for next year.

Block OPL-286 offers highly prospective plays analogous to the Bonga field, and we've almost completed evaluation of the existing Boi discovery and surrounding prospects. Here we plan to begin drilling later this year. Nigeria clearly has the potential to become an additional core country.

Oman may also play an important role in our portfolio in future. We've made quite rapid progress with Abu Butabul; acquiring one and a half thousand square kilometres of 3D seismic data over the field. In December we began drilling the first of an 8 to 10 well programme to appraise the Abu Butabul discovery.

Norway could also become a core country for BG. We hold 22 exploration and production licences, 14 as operator, and plan to drill four wells this year. Key amongst these are the Mandarin, Jordbaer and Ververis prospects. We acquired 3D seismic on Bream last year, with a key appraisal well also planned for 2008.

As I mentioned earlier, in Australia we've entered into an alliance with the Queensland Gas Company, an experienced coal seam gas operator. Its assets, in the Surat Basin, have a gross resource potential of more than 7 trillion cubic feet. We'll work with QGC to develop assets across the gas value chain, including plans to develop a new 3 to 4 million tonnes per annum LNG liquefaction facility.

Turning now to Brazil, we continue to see good growth in our Comgas subsidiary, the country's largest distribution company. This is a material and growing business. Having built the infrastructure backbone, Comgas is turning its strategy towards the large and relatively high-margin residential and commercial sectors in the state of Sao Paulo.

Comgas currently connects more than half a million customers, with the potential to serve more than two million economically active households on commercially attractive terms. This is an established and successful downstream business, at the centre of one of the world's fastest-growing economies. It's delivered strong growth over the last five years, and we expect further significant value growth in the future.

In the upstream, as you will know, 2007 was a transformational year for BG in Brazil, with significant appraisal success on Tupi, and exploration success on Carioca.

As reported by Petrobras, the pre-salt carbonate play appears to cover an extensive area of the Santos Basin. BG has the second largest exposure to this play, after Petrobras, and all four pre-salt wells drilled so far have found hydrocarbons.

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This slide summarises some general characteristics of the play. And although it brings with it undoubted development challenges, the technologies required to exploit this potential are all well established. The excellent reservoir quality and huge hydrocarbon volumes involved will render this play economic, material and an enduring component of our portfolio.

Tupi covers some 1200 square kilometres. It may be the largest discovery worldwide since Kashagan. And indeed, it's the same scale as Kashagan was at this point in its appraisal. We regard Tupi as a core asset in our portfolio. It offers: - significant gas as well as oil reserves; - ease of access to world crude markets; - and the benefits of a close partnership, in which we can leverage our skills in support of operator, Petrobras.

The results of the Tupi-Sul appraisal well were extremely positive. Last year we presented a range for hydrocarbons initially in place of 1 point 7 to more than 10 billion barrels of oil equivalent. Today we put that range at between 12 and 30 or more billion barrels of oil equivalent. We see each Tupi Sul-type well as being capable of producing around 20 thousand barrels of oil equivalent per day. Later this year, Tupi-Sul will be re-entered and prepared for an Extended Well Test in 2009.

The two wells have now established the presence of oil in three stacked horizons – the main Sag reservoir, and two separate Upper Rift reservoirs.

The Tupi-Sul well is regarded as a particular success, given that it: - confirmed excellent reservoir characteristics in the Sag; - showed the Upper Rift to be hydrocarbon bearing; - and yielded pressure data indicating that Tupi and Iracema are a single structure. And it is these developments that have led to the significant uplift in estimated hydrocarbons in place.

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Tupi is still at a very early stage of appraisal, but we are very encouraged by what we have found.

Here's an indication of how Tupi may be developed through to peak output, using a flexible, phased approach. I should say in advance that your packs will show the next four images as a single slide.

Phase 1 could be an Extended Well Test followed by production of up to 20 thousand barrels per day, perhaps as early as 2009. This could then be followed by a production pilot to assess water and possibly gas injection performance. Production could be up to 100 thousand barrels per day, beginning in 2011 at the earliest.

Phase 3, at around 2013, could be an initial large-scale FPSO to begin full development, targeting a specific and relatively small area of the field. Rates could be up to 200 thousand barrels a day, with gas export infrastructure also connected in this timeframe.

Full field development would see a series of large-scale FPSOs installed over areas of the field, with possibly smaller FPSOs in less productive areas. As of today, we'd estimate peak production of around 500 thousand to 1 million barrels per day. Later in the life of the field it could be possible to re-site FPSOs from depleted areas to drain other reservoir areas.

There are many options under consideration at this point, and little of the concept or timing is firm at this stage. But what is clear is that partners are firmly aligned in wanting to advance this project as quickly as possible, and Tupi features at the top of all of our agendas. And of course, our other Brazilian exploration success in 2007 was Carioca.

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So, drilling offshore Brazil to date has established a world-class field and another major discovery in the Santos pre-salt. Understandably, this has prompted a lot of interest in the further exploration potential in this area. As I stated earlier, we have extensive exposure to this new play, as this slide shows.

Amongst the prospects are two with very large potential: Corcovado – to be spudded in 2008, and the Iguazu Complex, where important information may be forthcoming from the drilling of the adjacent Guara prospect later this year.

The 2008 programme is still being firmed up, and may also include the drilling of the Iara well, in addition to the re-entry of Tupi-Sul. Away from the pre-salt, we're drilling an exploration well on the Saleta shallow water gas prospect, which could supply Comgas, if successful.

So, to summarise; huge progress has been made over the last year, and Brazil's future in our portfolio as a core country and long-term legacy asset now seems assured. Of course, what all our shareholders are keen to know is, what does this mean for BG Group and for our company's valuation? Now, at this early stage of assessment and appraisal, it isn't possible to provide you with definitive guidance. However, we can indicate that, notionally, the total net reserves flowing to BG Group from our Brazilian interests, ultimately could lie somewhere between 2 billion barrels and 3 point 5 billion barrels of oil equivalent. I would like to stress that this narrow range lies within a wider spectrum of possible outcomes.

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Now, this means that Brazil has the potential to be as large as all of the other ventures currently held in our proved plus probable reserves base, taken together. I'll return shortly to the updated total reserves and resources picture, which will provide a risked perspective on the portfolio as a whole.

I'd now like to round off this 'Portfolio for Growth' section by summarising our progress in exploration and appraisal, examining our prospect inventory, and updating you on the total reserves and resources base.

2007 saw extensive exploration work in drilling and in seismic activity. We drilled 20 wells, yielding 12 successes, including Tupi-Sul and Carioca, Jasmine Northern Terrace, Nucula in Norway, six wells in Thailand, and Huacaya in Bolivia. We acquired around 10 and a half thousand square kilometres of 3D seismic and 14 and a half thousand line kilometres of 2D, spread over surveys in ten countries.

This slide highlights our drilling plans for 2008. There is a strong emphasis on appraisal and near-term production, with more than 20 wells in this category. Activity is split more or less between core countries, potential core countries and other opportunities.

This year we are providing further detail on our exploration prospect inventory. This is the largest element of our reserves and resources stack, but is probably the least well understood. We now have 3 point 4 billion barrels oil equivalent of risked resources. These reflect the aggregate of the scale of each resource opportunity, and the chance of its success. This is spread over a portfolio of more than 200 prospects and leads.

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Importantly, around two-thirds of our prospects are located in existing or potential core countries. And this balances the need to spread risk, against our aim of achieving critical mass in a manageable number of territories. We operate three-quarters of our inventory – and three-quarters consists of onshore and conventional offshore opportunities.

Finally, onto reserves and resources. Here, we've seen some dramatic changes in 2007. As I mentioned at the beginning of our presentation, we added around 2 billion barrels oil equivalent, a 25% increase through the year, which followed an increase of around one billion barrels oil equivalent in 2006. Our resource base has increased by some 42% in two years, and now totals more than 10 billion barrels of oil equivalent.

You will see that the most significant additions are to unbooked resources and to our prospect inventory. A clear objective of the 2008 Exploration and Appraisal programme will be to move some of these unbooked resources and prospect inventory into the proved and probable reserves categories.

In aggregate, we now have 46 years of resource potential at 2007 production rates, spread across a variety of geographies and plays, and within both existing operations and in new frontiers.

Now, some of these resources are straightforward to commercialise, whilst others such as Gaza and Bolivia present significant challenges. But, it is the strength and diversity of the portfolio that gives me confidence about our ability to sustain growth.

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To help you dimension that growth our total 10 billion barrels resource base could support a production growth rate of 8% per annum compound out to 2020 – and still maintain today's 9 years proved reserves to production ratio, on the then much larger production base. And it's also worth noting that the 6 point 7 billion barrels of 2P reserves and discoveries alone could support a 5% growth rate all the way out to 2020, even if one assumes zero contribution from all of our future investment in exploration. And, of course, with the exploration portfolio I've just outlined, we will aim to do much better than that.

Now to crystallise the significance of this extending compound annual growth of 6 to 8% all the way out to 2020, would see production rise to between 1 point 2 and 1 point 6 million barrels of oil equivalent per day. To conclude our presentation, and before we take your questions, I'd like to summarise the key points from today.

We've announced good 2007 operating results. We've shown the increasing intrinsic value of our LNG business. And we've talked about our 2009 volume targets and earnings framework. We've also updated you on the progress towards our 2012 targets, and briefed you on the substantial increase in our resource base. And we've shared our views on the longer-term growth potential, indeed, right out to 2020.

So, in concluding, I hope to leave you with: - an insight into the strategic thinking behind the creation of our portfolio; - a sense of the remarkable journey this business has made, and continues to make; - and, most importantly, a lasting impression of the real substance of BG Group - our aspirations, and our intrinsic potential.

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This time last year I said BG had already delivered a decade of growth, and was set fair to deliver another decade of growth ahead. Today, just a year later, I feel we're making excellent progress, and have already secured within our portfolio the opportunities which will meet that ambition.

Ladies and Gentlemen - thank you for your attention. Ashley and I would be happy to take your questions. Thank you. Iain first up.

Iain Reid, UBS:

Frank I've got to take you back to this Tupi reserves estimates which you've given us, because we're in the rather curious situation now where the operator is giving us a recoverable reserve range which is quite tight and you're giving us an in place range which is actually quite wide. So is it possible to kind of reconcile the difference between, well not the different but reconcile your estimate with Petrobras' estimate of what they've said about Tupi already? Obviously it depends on recovery factor, you've got a carbonate reservoir which can have variable recovery factors, but you're also talking about an excellent reservoir. So maybe you could fill in the blanks a little bit there?

Frank Chapman:

I think at this stage of course we are at a very, very early stage, 12,000 square kilometres, two wells in there, two successful wells, geophysical data that's what we've got. So naturally you would expect there to be quite a wide range.

I think Petrobras in their reserves numbers are giving a feel for a range of recoverable reserves to be delivered around a central number. The actual range is I believe still quite wide. I believe the numbers that we've published today do agree with the Petrobras range. But we simply prefer at this point to give in place volumes.

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You will appreciate Iain as well, that the reservoir will have different recovery factors in different places and you will have different recovery factors for oil versus gas. So to give a sort of average recovery factor probably gives the impression of over simplification. So at the moment our preference is simply to say these are the in place volumes and as our understanding develops we'd really be delighted to share more knowledge with you. But I think that you can see the numbers are pretty consistent.

Iain Reid:

Sorry I have one other question about LNG margins if I could, probably to Ashley. Could you just describe a little bit of the moving parts about the upgrade in the margin guidance? It is because the revenues you think you're going to get from your portfolio are driven higher by the contractual mechanisms in the term contract. Is that the major driver? Or is there something else?

Ashley Almanza:

No, there are I suppose three components. We've changed the reference price, that's probably the least important. The two most important components are firstly we've been at this for a few years now and our execution has improved. So we know now that we can get a better yield from the same portfolio. And the second important factor is one which both Frank and I mentioned in our comments, which is it's clear to us now that the shortage of LNG supply is going to persist for the foreseeable future. And it's that tightness of supply, combined with the fact that we know that the business model works both when supply is tight and when spot cargos are available. When spot is available we've got the lowest cost infrastructure in the market of choice and when markets are tight we've got the flexibility to go to the premium markets.

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So it's really that is driving the improvement. I think what you're alluding to is a factor, but it's not the most important which is that overtime our supply mix changes and therefore the margin changes and certainly we've seen some of that in 2007. But it's basically execution and the fact that this operates in both of those modes.

Marc Iannotti, Merrill Lynch:

Three questions if I can. Can you give some indication of the size of Carioca if possible? Secondly can you make some comments on Kazakhstan, every day in the press there is talk of changes to the fiscal structure there, be it export pressures there, can you just give us some idea of what's going on there? And finally do you think there's any scope to do more deals in other countries like you have in Australia with QGC Group?

Frank Chapman:

I'm going to give you one reasonable answer and two I'm going to choose not to speculate. I mean I think the scope for further deals I wouldn't speculate on that. I think the deal we've done is really important strategically. It gives us access to very material reserves; it gives us the opportunity to expand LNG production in that basin and close to the key Asia markets and customers that we have now developed in those markets. It helps BG to develop its Asia Pacific position in general. It provides a OECD investment destination in Australia for the company and very importantly gives us access to the skill base in this emerging resource play, so for many dimensions very important.

I think clearly you know this does open new dimensions for us and we'll be looking at that. But I think that it's early days and one ought not to speculate further than the deal where we're going to be really focussed in this coming period. We want to make a real success of this and there's plenty of potential there, so that's where we'll be focussed.

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On Carioca I don't want to say anything about the size, we have really got a lot of work to do on Carioca and we're going to be drilling more wells at some point. So I don't really want to speculate on the size.

On Kazakhstan, the petroleum minister, Mynbayev, recently said something about taxing exports by pipeline, he did also say that this would not apply to pipelines or to PSCs with stabilisation clauses. Apart from that it's a very vague comment, there are no details, so I can't really offer you any comment on that.

With regards to the rest most of that spins off of the situation with Kashagan. Of course we're not a consortium member in Kashagan. And in contrast to Kashagan, Karachaganak which is now the largest hydrocarbon producer in Kazakhstan, has performed extremely well. And the government is very happy with the way BG has delivered on its commitments. And in fact Prime Minister Massimov said quite recently - he said two things, one he wants to be very clear that for those companies coming to invest in Kazakhstan meeting their contractual commitments, that the sanctity of contract would be honoured. And secondly he commended BG specifically and commended BG for its outstanding contribution to the development of the industry in Kazakhstan.

So I think that clearly this is a young government in a country where it has got burgeoning resource position, burgeoning income, they are going to be considering all of the time how they are going to structure this. And they will balance that with their need to continue to attract companies of BG's calibre who can do for them what they need to be done.

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- Ed Westlake, Credit Suisse: You've moved up Henry Hub a little in terms of your assumptions, maybe you can talk a little bit about where your thoughts are moving in terms of longer term gas prices, both in the States and in the UK and in some of the specific markets that you operate in such as Kazakhstan, Egypt, Trinidad...
- Frank Chapman: Gosh there's a huge list of questions. We might be here a long time with that one.
- Ashley Almanza: The first thing to say is that the \$7.25 is not intended to be a view of where prices are going to go. Gas pricing is complex for all the reasons that are well understood, markets are regional, there is an emerging but thinly traded global gas market. And we see also in the Far East some convergence between gas price and oil prices - oil parity. I think these data points are all well known.
- I think for us you asked the question in relation to LNG, the point I keep returning to is the supply shortage basically, stretching out further and further. Each time we come here and stand up, the point at which we see new supply coming on in material quantities to meet rising demand just gets further and further out into the future. So that's the overriding point I think we take into our assessment of the prospects of this business, along with the execution which we talked about a minute ago.
- In the UK you know that lots of infrastructure is being built to substitute what is effectively a declining indigenous base, we're no longer self sufficient and that supply has got to come from further a field. It will come from Russia, Norway, North Central Asia, North Africa and so on and you know the market will do its job to bring supply.

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It's unlikely that that supply will be at the same cost as we've seen historically, it's got to come from further away and it's got to increasingly compete with other markets to pull the supply in. So you ask quite a broad question and that's quite a broad answer.

Frank Chapman:

Yeah I mean Ed, we know none of us are good at forecasting prices so we don't know. But you know in the US we planned on \$2.50 to \$3.50, last year it was \$7, business makes money and we have the opportunity to divert, so that's working. We have opportunity to assess the higher value markets where these opportunities arise.

The UK by virtue of the new infrastructure is being more progressively connected to the European market and other markets through LNG. So it will no longer be a market cul-de-sac if you like, with lots of supply just flowing into a dead end, where it will either be over or under demand. So it will be much more a feature I think in the future as this interconnectedness increases of what gas prices are doing further a field.

And Egypt and all the rest of it, well over a coffee sometime, fair enough?

Chris Rob,
Partner Fund Management:

I have two questions one is a little more market, one is much more specific. On the market are the recent coal problems, China cutting 40 million tonnes of coal exports Bowen Basin, Queensland, problems with thermal coal exports, South Africa having power problems bringing more coal internally. When you look at what that does to Asian base load power fuel supply and what that does to peaking power demands which is where LNG goes, is this something that's going to persist?

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And you said you were very bullish on first quarter LNG results for yourselves, is this going to persist into second quarter and does this sort of change how you're looking at this year for LNG?

Frank Chapman:

I think the issue about coal and its potential impact on gas demand in the longer term is something clearly one needs to consider. There are considerable advantages that gas has over coal in terms of its carbon footprint, the carbon intensity of the fuel, as well as the efficiency with which it can be burnt. I think also in markets where we are particularly interested there is a very long lead time, in some cases companies will never manage to achieve permitting for some of these plants.

Now as regards to clean coal, there the technology is not yet of a commercial scale, that will come at sometime. So I think in order to make those things economic, one does need prices which are significantly higher than the prices we're assuming in our economic models, to make our gas business viable.

If you look at the EIA for example, no matter which scenario you take, high demand or low demand you know between 2005 and 2015 that ten year period gas demand is expected to grow in the low case by 25% and in the high case by 29%. And that takes of course into account all of these other fuel positions.

So if the question is, is there going to be sufficient demand for gas then I think the answer is yes?

Chris Robb:

My question is just for the next couple of quarters are you seeing from your long term customers that you have in Asia, are they calling you up and saying we're going to have base load problem here because we're not going to have the coal volumes.

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Ashley Almanza: I mean for 2008 the business model is quite complex, there are many, many inputs here. We've delivered to 13 countries and 30 customers in the last 24 months. And to try and synthesise all of the supply and demand component obviously would take a while. We just boiled it down to 30% EBITDA if you assume \$7.25, 13.5 million tonnes, we look at all of the inputs and that's our view really on the next four quarters.

Chris Robb: And just a second question, more specific. Could you give some guidance for '08 and '09 on the breakdown of UK volumes between - spot priced volumes and contract volumes?

Ashley Almanza: Yeah historically this has been about two thirds contracted and one third uncontracted. We vary that depending on market opportunities from quarter to quarter and year to year but as a rule of thumb I think that's a reasonable guide, two thirds contracted, one third uncontracted.

Neil McMahon, Sanford Bernstein: Two questions, the first really on production sharing agreements and the second one on Nigeria. Could you give us an idea on your 15,000 barrels of oil equivalent a day movement at \$75 per barrel oil prices? And then since you've showed reserve movements at \$96 per barrel prices for the end of the year maybe a view on the growth rate at those sort of prices as well, since I presume you've done the maths?

Frank Chapman: On reserves I think I'm not going to add anything on reserves movements as a result of prices, because as you take each and every PSC the degree to which price will affect reserves and in fact flowing through to production will be a function of where you are in the cost recovery curve, how much cost oil or gas one recovers and what the price is at that particular time.

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So I think that what we're trying to do here is to actually give the market a very clear steer that some commentators have got it wrong. You know some commentators have said that we're very susceptible to production decline as a result of rising price, well that's not right.

Now what we've done today is to give you an indication of what it looks like out to 2012 because that's quite a few years for you to get an understanding of how it works. And then you know as we get further along through this cycle we'll provide you with further updates as the picture evolves. But really I mean you could almost say that the effect of price on our production level out to 2012 is very small, it's not you know 60% or something like that.

Ashley Almanza:

Just to add to Frank's comments I said over a wide reasonable range we've given the outlook at \$55 dollars and anywhere between \$55 and current prices I would regard as a reasonable range.

Frank Chapman:

Yeah absolutely.

Neil McMahon:

Right that was more the point. Just finishing off on PSC's Tupi and sub salt what are do you think the chances the Brazilians have talked about putting the whole of the sub salt basin under production sharing agreements?

Frank Chapman:

You mean that with reference potentially to future licences.

Neil McMahon:

Right this is the point. For your existing - you're pretty comfortable that they're locked in. Okay just a final question on Nigeria. It seems what you presented today contradicts somewhat the views of Shell and Chevron on incremental LNG volumes out of Nigeria.

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Not only is Nigeria Train 7 questionable, Olokola and Brass there have been many question marks. Are they going to come on around 2011 as they are meant to? To what extent do you think that all three of the projects that you're involved in there from offtake or investment may actually be 2015 plus projects and therefore tightening up the LNG market even more?

Frank Chapman: Well did you say 2011?

Neil McMahon: That's what they're currently on the website at.

Frank Chapman: Yeah well I don't think we've ever said 2011.

Neil McMahon: Well the operators have so.

Frank Chapman: Well I would say that the first thing on OKLNG Chevron ourselves and NNPC and Shell continue to invest in the optimisation work. We are of course aware and recognise that a new government has been elected, wanting to consider its priorities, its agendas, you know what it wants to do. It wants to balance the use of gas locally with export value. It wants to look particularly at power generation and transmission, gas gathering from flaring and so on. Now all of that's going on and that will take time. That's to be expected.

In the meantime we've got quite some work to do on OKLNG and we want to improve the economics of OKLNG so that work's going on in parallel and we're all continuing to invest. I wouldn't speculate at this stage on timing. These projects are obviously going to take some time.

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I think the overall context is an important one; Nigeria has a huge hydrocarbon resource. It's located in a place which is within comfortable economic striking distance of some of the world's most important energy markets. So it seems to me inevitable that Nigeria will feature as a major supplier of oil and gas to that market for many decades to come. And what we're seeing here is some time for reflection on how this infrastructure is going to be developed, which projects are going to be prioritised. And you know as soon as we have got further insight to share we'd be happy to do that.

From our LNG portfolio perspective, you have to look at the portfolio; we've got NLNG Train 7, Brass, OKLNG, that's in Nigeria. We've now got 3 to 4 million tonnes in Australia. We're continuing to drill offshore Egypt. We're drilling offshore Trinidad and we've already got reserves in Trinidad surplus to requirements. And all of that together amounts to considerably more than 25 million tonnes.

Now we are aiming to try to secure by the middle of the next decade around 20 million tonnes. So not all the eggs are in Nigeria's basket, it is a valuable set of opportunities there but we're also developing other areas where we can bolster our LNG supply. Don't forget as well we've got 12.6 million tonnes per annum to way beyond 2020 so that will underpin you know the basic value of the LNG proposition.

Theepan Jothilingam
Morgan Stanley:

Just a few questions actually. Firstly just on Australia you seem very confident in terms of an LNG development there. I was just wondering what the next milestones are for Australia. I didn't see anything in terms of a drilling campaign there to prove up the 7tcf.

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Secondly just again on LNG regasification, hasn't been much talk in terms of the expansion plans, I was just wondering is that sort of off the agenda for the time being or what is the update in terms of regasification please?

Lastly just on Brazil. You've given an update in terms of a potential production profile. I was wondering whether you could give any sort of indications of capex for at least first production and where you see sort of operating costs etc. There have been a number of sort of indications on development costs for Tupi. Thank you.

Frank Chapman:

On the LNG development of course we will be engaging in an intensive and extensive drilling campaign with Queensland Gas to prove up the reserves. That's the first thing we're going to be doing. And we'll keep you in the picture as to how that's developing but you know if we're going to make first LNG by 2013 in Australia that means we have to sanction the project by the beginning of 2010. That's only two years away, we have to get on. So we'll be pursuing that let me say energetically.

With regards to regasification, Dragon of course will come on some time around the middle of this year. Chile regasification will come on the first phase of that in the middle of 2009 with the full capacity available in 2010. Those are the next two projects. We have of course further potential to develop regasification capacity in the US, I want to say to something like 3.5 billion cubic feet a day, total US regasification capacity potential. So we are pursuing regasification projects and we will take these at the appropriate time as the supply portfolio develops.

On the production profile and capex Ashley do you want to ...?

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- Ashley Almanza: Yeah sure. I mean obviously full field development is going to run into many billions, tens of billions of dollars. That's going to be, I'm talking gross of course, spread over the full field development. And as you saw in the conceptual development plan that Frank outlined, this is a phased development concept spread over many years. We're still at the conceptual stage. It's just too soon really to start talking about unit capex and unit opex. I think as we work our way through beyond sort of concept into more detailed design we'll get a better read on that but I think for now it's just too soon to give you the unit costs indicated.
- Colin Smith, Dresdner Kleinwort: I've got three questions I'm not sure if that's okay. Just on your 2 to 3.5 billion barrels potential net reserve guidance from Brazil to BG, can you just confirm whether that includes any component from the risked exploration that you've talked about? Second thing was can you confirm that Corcovado is expected to be an oil play because it's getting quite close to shore there I think where the prospectivity I thought got a bit gassier? And finally on LNG just thinking about the Q4 EBITDA margin on shipping and marketing. Can you just confirm what you think that number was in comparison to the 30% guidance you've given us today?
- Ashley Almanza: Do you want me to do the last one?
- Frank Chapman: Yeah go ahead. He's champing at the bit for this one.
- Ashley Almanza: I think that we've seen that this - the EBITDA guidance is not really intended to give pinpoint precision on quarter by quarter. I think it works very well as a prospective rule of thumb. For the full year 2007 actual EBITDA was 18% and the fourth quarter was way above that.

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But I think you've got to look at the 30% in the context of the full year so we don't expect to achieve the same guidance quarter in, quarter out.

Colin Smith: So Q4 was more than 30%?

Ashley Almanza: Yes it was, yeah.

Frank Chapman: Gosh you're being generous. 2 to 3.5 billion barrels, I mean I do want to emphasise that the reason I'm giving this indication is that we are constantly asked by shareholders and analysts what do you think this could be worth. And what I'm giving here is a notional idea. The range of course could be quite wide; you've seen the range of in place volumes for Tupi which we can't narrow down because of our lack of knowledge. Of course we are even less able to say what the range will be in things we haven't yet drilled. Some senses things you haven't drilled you usually have an expectation and it's a single number. What I'm trying to do is to say to you if you take the overall picture how big could it be. And the answer is well actually it could be quite big.

Now if I take those things that are not yet drilled and I look at the potential in Tupi and I sort of think how much would it add up to, then it sort of could add up to 2 to 3.5 billion. Now I can't be any more precise than that. It's not a prediction, it's not a forecast, it's not even guidance. Okay? But it's trying to answer a question for you you're saying to me how big is this? Is it a little thing like that or is it a big thing like this and I'm trying to say well it sort of could lie in this range. It's the best I can do.

Corcovado is in 600 metres of water. It's a pre-salt oil play looking potentially for the same - a carbonate play but we're also looking for clastics, but it's an oil play.

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Lucas Hermann, Deutsche Bank: Two brief ones, probably first one for you Ashley. Just in terms of going back to LNG, just to make sure that going forward you've not locked in a chunk of the Asian business at particular rates which you know to some extent are going to cap the upside that you might see were markets to prove even tighter than they have been. That's one on LNG. Second on LNG just whether you care to give us what the DA number actually was for 2007 i.e. what's depreciation running at in the shipping and marketing business at this moment? And thirdly you talked about some downtime in Karachaganak through the course of '08. I wonder if you can just give us an indication of how much downtime and what impact that's likely to have on the production out of Karachaganak this year?

Frank Chapman: On the last one I think if you assume that Karachaganak is going to do the same next year as it did this year that's probably about right.

Ashley Almanza: On the sales portfolio I think last year we said that we had termed out about 15% of our supply in terms of volume not price. There's a mix of commercial sales arrangements in that 15%. That number's now closer to 20% so we've added a bit more in the past year. It's not fixed price but you won't be able to look at market prices and see the variability in there. I think the depreciation guidance there is about 60 million per annum. I mean maybe I could just round this out because obviously quite a few questions on this. If you take the 13.5 million tonnes, we're using a conversion rate of 51.7 to get you to tbtu or a million btu, it's simply by \$7.25, 2 to 1 exchange rate and knock off the DA of 60, and our business development is running at 60 to 70 so that's - it's a gross over simplification of quite a complex business model.

Frank Chapman: He didn't want to say idiot's guide.

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- Lucas Hermann: He managed it.
- Ashley Almanza: I wouldn't dream of it.
- Chris Robb,
Partner Fund Management: Given that it's reasonably close for '08 and '09 can you give any more granularity on the volume growth guidance in terms of what's liquids and what's natural gas?
- Frank Chapman: Currently we're producing around about 70% gas and 30% liquids and that's not going to change too much over the next couple of years. So we've got growth from the average last year to 680 or to the middle of that 680 to 710 is about 7.5% growth per annum over that period, and I expect the split to sort of remain more or less the same.
- Frank Chapman: Yeah I mean you know if you look at our oil/gas splits over the years it's not been far away from 70, you know 70 to 75 has been the sort of split.
- Frank Chapman: I think Lucas is going to think up a really difficult one now.
- Lucas Hermann: No it's one I probably won't get an answer to but I'll ask it anyway. On the deal with QGC just in terms of you're taking 100% of the LNG produced just what the sharing terms were on the marketing. Do you keep 100% of any upside on the discount you pay to Asian prices i.e. is it akin to Equatorial Guinea or is it a you know profit sharing arrangement? Some insight.
- Frank Chapman: You're right we're not going to answer that.
- Lucas Hermann: Thank you.

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- Gordon Gray, JP Morgan: Last year you gave us a bit more detail on Egypt in terms of progress on LNG3, the growth in domestic sales, and you gave us a sort of a peak 2.6 bcf a day figure. I'm wondering if you can put those into context again in terms of what you see the growth potential from that country?
- Frank Chapman: Well I think really at the moment the issue in Egypt, and we often see this in countries around the world, you move through phases of there being abundance of supply and the government interest moves towards revenues from exports. And then there are periods where there is a much tighter supply/demand situation and the country's interest's moves back towards having the domestic supply underpinned. And we're in that phase at the moment in Egypt and therefore new reserves being discovered are being attracted into the domestic market.
- Now as we've said to you before you shouldn't assume from that that the returns are worse. In fact we in some countries because of the much lower capital intensity of the investments required to monetise those reserves, you know sometimes these actually deliver even stronger returns. I'll give you an example, at the moment in West Delta Deep where we are producing very high levels in order to meet the additional domestic demand. And of course that's production that's being achieved with virtually no capital investment and a significant rewards from the additional volumes.
- So for the moment you know we are focussing on helping the government to meet its domestic needs and at the same time we're stepping up our exploration effort in El Manzala and El Burg particularly where we have finished the analysis and we see actually very good prospectivity here.

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And you know depending upon the success of that and how the domestic market develops will cause you know us to be either in a - having sufficient reserves for another train which we will probably also need to aggregate with other players supplies, or in a place where we're going to expand our domestic supply.

So for that reason we say LNG Train 3, absolutely. The structures are in place; the contractual arrangements are in place to develop more LNG there. We've got the land, the space, there's an understanding that we can develop it and we've got the arrangements such that we can aggregate supply from other suppliers as well, other players and put it through further trains. All of that is in place. The timing of that becoming a reality is dependent upon progress with reserves and the way the domestic the market develops. Sorry it's a complicated answer but that is the reality.

Gordon Gray:

That's fine. Can you give us a feel for on that basis what the growth is roughly in your production profile between now and 2012 in Egypt?

Frank Chapman:

Actually I can't off the top of my head. No. I mean we have a lot of development to do, multiple stages of development over the years and you know short of that, but essentially I think you know you see that in the profile that we presented at the beginning of the presentation which shows this long, flat, firm profile. You know subsequent developments which are plateau maintenance developments for West Delta Deep and Rosetta are within that wedge. So I think you can see at the moment the overall picture is one of plateau maintenance it is a really long, firm plateau with some opportunities in the short term of meeting exceptional demands from squeezing the assets harder.

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Neil Morton, MF Global:

I had a question on Southern Cone gas. Brazil has now achieved its ambition of becoming self sufficient in oil. And there's a similar ambition in natural gas. And to that end I think some of the recent discoveries is talking about having discovered a gas discovery the size of Tupi to the east of Block 11. If that's now achievable can you perhaps talk about the implications for the likes of Bolivia where you've discovered more gas reserves in Margarita? What happens to Bolivia if demand from one of its major customers disappears?

Frank Chapman:

I think that first off, the outlook for Brazil itself in terms of energy self sufficiency is very bright both in terms of oil and gas. And that's a good story because at the moment the development of the industrial market sector for gas in San Paulo State where we are operating Comgas is constrained because of the shortage of gas. Now Comgas is still growing. The strategy is focussed on higher margin residential and commercial customers. But as from about 2010 we expect that supply to be de-bottlenecked and for there to be more rapid growth in the larger volume using industrial sector.

As regards Bolivia, notwithstanding the self sufficiency of supply in Brazil, there is a process, if I can put it this way, of rapprochement between Brazil and Bolivia with Lula visiting Morales quite recently and making commitments to invest billions of dollars in Bolivia. And this of course is directed specifically at underpinning for the longer term ongoing supplies from Bolivia.

Now as far as our own interests in Bolivia are concerned we are looking at, we have of course some production, not much from Margarita and La Vertiente going into the system.

But we also have developed alternatives, both LNG and Argentina and other pipeline route options into Brazil for the longer term development there. The economics of Margarita are determined almost totally by the value of the liquids. It is an extremely liquids rich field. So we have to find some way of developing that gas in order to access the liquids potential from the field.

So you know it's a lot of moving parts in this. Before we are going to invest in Bolivia we need fiscal, legal, political stability because there are large sums of money involved and at the moment that is the constraint rather than the market on the development programme.

Ashley Almanza:

And if I could just add to that, the other thing you have to bear in mind is that as Bolivia continues to send gas to Brazil and as the existing production behind those sales agreements declines, you get ullage in the pipeline. So another scenario is that gas will come to market, there will be more gas and the cost of gas supply will adjust accordingly.

Frank Chapman:

I'm going to take one more question unless you're all exhausted. I think you're all exhausted. One more?

Irene Hirmona,
Exane BNP Paribas:

As you are taking the steps to develop this greatly enhanced resource base, 10 billion barrels, multiple LNG, are skill shortages an issue? How do you approach manpower and what are you doing about it as you approach development of all these projects?

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Frank Chapman:

I think you know having high quality resources is a challenge in many industries and it's a continual challenge. But I think at this particular point because of the huge amount of development of resource that has to go on to meet demand in the coming decades there is a particular shortage in certain disciplines.

I think BG is in a fortunate position because we have recruited large numbers of people in recent times and we found ourselves able to recruit people because the excitement we feel about the potential of our company actually echoes through the industry and people are very interested in coming to work for BG, a company that seems to have such positive prospects and that has made such good progress in recent years. That really does reverberate through the employment market. Now of course our scale is another advantage. You know we're not the largest player in the marketplace and therefore we are more able I think to put down compelling and flexible recruitment propositions than perhaps some of the larger players in the marketplace.

So at the moment we need not underestimate this. This is a very important and serious challenge but so far in our programme over the years we have managed to recruit large numbers of people across the disciplines to fill our company's needs. Ultimately it will be the factor that decides the pace at which we can grow.

Okay well thank you very much. I think we're going to draw this session to an end. I do hope that you will leave this presentation with a positive impression of BG's outlook and I look forward enormously to seeing you all, speaking to you all at the 1Q results later this year in May. Thank you very much indeed.

Ashley Almanza:

Thank you.