



BG GROUP

BG Group

2008 Third Quarter Results

4 November 2008

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Please note that this document represents only a summary of the information in BG Group's Third Quarter Results and Interim Strategy Update released on Tuesday 4th November 2008. It does not contain sufficient information to allow for as full an understanding as would be provided by the full Third Quarter Results and Interim Strategy Update available from BG Group's website www.bg-group.com

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Introduction: Chris Lloyd, Head of Investor Relations

Good afternoon ladies and gentlemen and welcome to BG Group's third quarter results.

During the course of this conference call, Frank Chapman, Chief Executive, will take you through BG Group's interim strategy update, and then Ashley Almanza, Chief Financial Officer, will look in more detail at the financial results. After this we will take questions.

During this presentation we'll be focusing on our Business Performance as highlighted in our results statement. We will also be making various forward-looking statements. Factors that could cause our actual results to differ materially from the results we currently expect are identified in detail in the statements issued today.

Thank you, and now over to Frank.

Frank Chapman, Chief Executive

Good afternoon, Ladies and Gentlemen.

You'll have seen the results statement and our strategy update. Before Ashley takes you through the third quarter highlights, I would like to spend a few moments providing you with an interim strategy update, ahead of our annual strategy presentation in February next year.

BG Group has achieved excellent exploration and appraisal results so far this year, with success in eight countries: Algeria, Australia, Brazil, Norway, Oman, Thailand, Trinidad and Tobago, and the UK.

Offshore Brazil, the exploration success and scale of resources discovered have been exceptional. BG Group and its partners have now achieved a sequence of six successes in the Santos pre-salt play, with the Tupi, Tupi Sul, Iara, Guar, Carioca, and Parati discoveries. Based on these drilling successes, BG Group currently estimates its net share of reserves and resources in the Santos Basin at over 3 billion barrels of oil equivalent.

Back in February, we said we believed the Santos pre-salt play had the potential to realise 2 to 3 point 5 billion barrels of net reserves to BG Group. That belief has been validated by the progress made in just the last 9 months, which has advanced current expectations towards the upper end of that range. In addition, there remain in BG Group's portfolio a number of significant untested exploration prospects in the Santos pre-salt play, as well as potential upside from appraisal of existing discoveries.

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Success has also continued in Queensland, with BG Group and QGC coal seam gas 3P reserves more than doubling since the start of the year.

As a consequence of the above successes, BG Group expects to report at year end an estimated¹ increase of more than 2 billion barrels of oil equivalent to the Group's 2P reserves, corresponding to a 60% increase; as well as an increase of some 3 billion barrels of oil equivalent to the Group's total reserves and resources base; corresponding to a 30% increase.

The material growth in our reserves and resources so far this year supports our confidence in the potential of the portfolio to sustain a 6 to 8% compound annual growth rate in our E&P production from 2005 right out to 2020.

As you will remember from our February strategy presentation, we identified the major projects supporting our 2009 production target as Buzzard, Karachaganak, Trinidad and Tobago domestic gas, Panna /Mukta and Tapti in India and Hasdrubal in Tunisia. We confirm that *all* of these projects are either now already in production or on track for start up in 2009. In addition, the major projects supporting continued production from existing ventures; Rosetta Phase III; and West Delta Deep Marine Phase IV are already in production and the Poinsettia development in Trinidad and Tobago is progressing towards start-up at end of 2008.

So excellent progress with our portfolio of projects. And as a consequence, I am pleased to confirm our production target for 2009 of 6 hundred and 80 thousand barrels of oil equivalent per day as well as our 2012 target growth of 6-8% per annum over the period 2005 to 2012.

In Brazil, development activity is advancing rapidly on Tupi with the award of drilling and facilities contracts. First commercial production is now expected from the 100,000 barrels per day Tupi pilot by the fourth quarter of 2010. In addition, the exploration success with Guar and Lara has led the partnership to fast track planning for two additional 100 000 barrels per day pilot schemes, with the objective of achieving first production in 2012. In parallel, full field development and infrastructure plans are being advanced.

In Kazakhstan, we have initiated discussions with KazMunaiGas around alternative phasing of project expenditure to ensure that the large capital commitment associated with the Karachaganak Phase III project is not made at the peak of the cost cycle. These moves are expected to secure improved returns for both the partners and the

¹ Assuming a 100% ownership of QGC

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Republic of Kazakhstan. Karachaganak has achieved a new record daily throughput this year, and reserves and production potential remain unchanged.

In a few moments you will hear more about our strong LNG shipping and marketing performance for the third quarter. We have lifted our LNG profit guidance for both 2008 to 1 point 4 billion pounds and for 2009 to around 1 point 3 billion pounds.

Longer term, we expect global LNG demand to continue to grow strongly and confirm our goal to secure 20 million tonnes per annum of equity and contracted LNG supply by the middle of the next decade. By that time, we anticipate material equity LNG supply and a range of customer positions in both Atlantic and Pacific basins, underpinning the expansion of our global gas business.

And finally, most of you joining us on today's call will be familiar with our announcement last week of the on-market offer for all of the ordinary shares of QGC in Australia. For BG Group, this transaction enhances our global gas strategy, builds on existing Australian domestic and export interests and provides BG Group with both material Asia Pacific gas resources and Pacific Basin LNG supply. Operationally, excellent progress has been made in the year with the proving of reserves. We now anticipate ongoing progress with reserves which by 2010 would support a two-train 7.5 mtpa first phase to the Queensland Curtis LNG project.

I am pleased to report that BG Group has today obtained majority control of QGC, with a relevant interest in some 495 million shares representing 52% per cent of the issued share capital of the company.

Ok that was the Interim Strategy Update. Now I would like to hand you over to Ashley who will take you through the main highlights from our third quarter results.

Ashley Almanza – Chief Financial Officer

Thank you Frank. Good afternoon ladies and gentlemen.

Let's begin with the E&P segment.

Total operating profit more than doubled to 917 million pounds. Production was up 11% against 2007 when production was reduced by third party damage to the CATS pipeline. Our heavy summer maintenance program is now complete and the business is prepared for winter production.

For the UK gas year just ended we sold around three quarters of our UK production under contract at an average price of 34p per therm, which is in line with our guidance.

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For the UK gas year ahead which started on the first of October, our contract sales look quite different as a number of legacy contracts come to an end and we have the opportunity to re-price these on better terms. For the gas year ending 30 September 2009 we expect to sell around 60% of our UK gas production under contract and expect to realise an average price of around 55 pence per therm.

Unit operating costs were \$6.91 per barrel for the quarter reflecting the heavy maintenance spend typically seen in the third quarter, and \$6.29 for the 9 months as continued high prices fed through to royalty and tariff costs. Full-year unit-opex is still expected to be around \$6.25 per barrel.

The exploration charge for the quarter was £115 million. We still expect our gross exploration expenditure for the full year to be around £850 million with an estimated £425 million to be expensed.

Turning now to the LNG segment

In Shipping and Marketing our managed volumes increased by 8% and operating profit increased almost three fold to £351 million. Trading conditions were good and we directed our supply to the highest value markets with 65% of cargoes delivered to markets outside the United States.

For the LNG segment as a whole, operating profits increased by 146% to £367 million.

The market for LNG remains firm and on this basis we now estimate that our LNG segment will deliver an operating profit for 2008 in line with current market consensus – almost twice the level anticipated at the start of the year.

For 2009 we have locked in more than half of our shipping and marketing margin and have today upgraded our guidance for next year. At current prices and exchange rates, we now expect operating profit of around £1.3 billion from our LNG segment as a whole. Obviously the un-hedged proportion of the segment's profits will move with commodity prices; a point you should consider when changing your commodity prices in future. The segment trades in US dollars, again something to bear in mind as you mark to market.

Total Operating Profit in Transmission and Distribution was up £13 million to £80 million principally due to strong growth in residential and Cogeneration sales at Comgas. Also at Comgas, the regulatory balance of gas costs which will be recovered from customers in 2009 increased to £77 million. Looking ahead, we expect that the lagged effect of oil prices on Comgas' gas costs and the strengthening of the US Dollar will mean that gas costs will rise significantly during the fourth quarter and be recovered in 2009. Under International Financial Reporting Standards, these pass through costs and their recovery are accounted for on a cash rather than an accruals basis.

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Under IFRS we therefore expect that Comgas will not contribute to Profit during the fourth quarter. This is purely a timing effect as these costs will be recovered during 2009 and I would stress that on an underlying basis, Comgas continues to deliver strong and profitable growth and operating performance.

In the Power segment, Total Operating Profit was down 34% at £19 million. The major contributor to this drop in profits was Seabank, where output was restricted due to planned maintenance. Profits from our US Power business reflected low demand in key north eastern markets.

For the Group as a whole, Total Operating Profit more than doubled to £1.4 billion and earnings per share increased by 113% to 23.2 pence per share. At constant US Dollar exchange rates and upstream prices, the underlying increase in Total Operating Profit was 36%.

Cash generated from operations rose by 55% to £1.2 billion. During the quarter, working capital increased by £351 million principally due to the timing of cargo liftings in our LNG and E&P business.

Capital investment during the quarter was £730 million. Our full year guidance remains at £3.1 billion, excluding the £2 billion acquisition of QGC which is being funded from existing cash resources.

BG Group will have modest gearing after the acquisition of QGC and I expect the Groups strong cash flow to reduce this by the year end. It is worth reminding you that due to the contracted nature of much of our gas sales, our operating cash flow is not so directly linked to the oil price as is the case with some of our oilier peers. The Group remains strongly financed and will comfortably fund its growth programme.

In closing then, the Group delivered a strong financial performance in the third quarter, and the business is well positioned for the fourth quarter and for 2009.

That concludes my remarks and now Frank and I will be pleased to take your questions.

Thank you, Ashley. And now we will take your questions. Please could you state your name and company when asking a question. Thank you.

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Q&A session

Theepan Jothilingam,

Morgan Stanley: Hi good afternoon. Just three questions actually, firstly just on the renegotiations on UK gas contracts. I just wanted to get your perception on whether this is now a structural shift in price beyond 2009, if you could make some comments there?

Secondly, on Karachaganak, if you could give me a number that you've incorporated or had incorporated in terms of contribution for 2012 production, that would be great? Clearly I expect that Brazil sort of replaces some of that volume, I was wondering if you thought there was upside from the rest of the portfolio. And thirdly just on Brazil, if you can make any comment perhaps on when you see a decision taken on pilot schemes for Iara and Guar and also Frank it seems you've been quoted in the wires - that Brazil is economic at lower prices, I was wondering if you could give a bit more flavour on that comment?

Ashley Almanza: Theepan, let me take the UK gas contract question first. I think the way I'd describe this is there is a structural shift in our portfolio rather than - a statement of the obvious, rather than in the market as a whole. We have had for some time, long-dated legacy contracts in our portfolio which have been priced well below current market. And that is now changing, changing for the better. So our gas prices going forward will be more reflective of prevailing market conditions. One can't predict these things precisely but I think it's very unlikely that we will see a return to gas prices which were reflected in those legacy contracts. So in short a structural change in our portfolio and the way you will see UK gas realisations flowing through our top line.

Frank Chapman: On Karachaganak what I want to say to you there of course is that we are working and these discussion with the KazMunaiGas and partners have been initiated by BG. We're working on a number of re-phasing options and at the moment we have not selected which of those options - and agreed which of those options we will pursue.

If we look at the overall position in the portfolio, we actually don't need to settle on these changes in order for us to meet, we don't need the Phase III as it was envisaged to meet our 2012 targets. And that arises because of progress that we've made elsewhere in the portfolio.

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Firstly, of course we've talked about Brazil and the aim now to have in 2012 up to 300,000 barrels a day production on stream. Elsewhere in the portfolio, we've also been making some really good progress, for example in the UK we've seen increases in 2012 production from Buzzard, West Franklin, J-Block, Everest and we expect to see more production in 2012 from Egypt and Thailand.

Now going back to Karachaganak, remember as well that we are investing still today in Karachaganak in Train Four so there are benefits even though that is just moving production from local regional to export markets. We are investing there in a major capital project and that will effect the amount of equity production coming our way in the coming years.

Additionally, we've been successful with the de-bottlenecking process, which has led to increased capacity of the plant. So these advances in Karachaganak are already locked in.

Now Phase III itself will be reformed. It's not about pushing back all of the investment, it's about spreading out that investment and re-phasing it. And certainly appropriate for what you could call good reservoir management would require drilling and development to at least maintain a flat production plateau.

So the bottom line is that we don't need Phase III in its current form to deliver the 2012 targets because of progress elsewhere. We're working on an alternative to Phase III to spread out investment over a longer period and improve the economics.

Now in terms of Brazil, the reason I'm not going to give you a price at which it breaks even is because there are four major partners who are working these economics on a slightly different basis. So I don't want to give you a particular number. But I have told you before that we're screening at values from \$30 to \$90 a barrel. We screen all of our projects over this wide range, we also adjust cost structures and look at a range of cost structures across this wide range and we look at the balance between upside and downside and the overall metrics of economic performance if I can put it that way. And we're very happy with the economic robustness of Brazil today at prices significantly below the prices that we have in today's market.

And let me say also of course that it should be evident that we're all happy with the robustness of these projects because we have pursued really quite an accelerated implementation of the Tupi pilot, it's coming on stream at the end of 2010.

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That is extremely quick and rapid progress. And that should also be a confirming signal to the market that we are comfortable with the technical challenges and the economic framework for this project. And also of course you've seen us investing heavily in the commitments to drilling rigs to do appraisal and development, and also to accelerating, advancing, fast-tracking these two new pilots for Guar and Lara. All of these things should be making the market feel confident that we are optimistic about the potential.

I want to underscore one more time, the economics are made robust by the enormous potential in this play. Okay? Now we're going to give you some more numbers in February to tell you a little bit more about the full potential, but I can tell you that the in place volumes are very large indeed.

Neil McMahon,

Sanford Bernstein: Good afternoon. I've got a few questions, first of all hopefully this is a quick one Ashley, looking at the UK gas price for next year, is it fair to assume that potentially for the entire UK gas portfolio you could be looking at something around about 45 pence per therm given the split between older lower priced contracts and the new negotiated contracts?

Ashley Almanza: Not necessarily, I'm saying for the contracted portion 55 pence per therm. And as we said here today, the balance of the gas will be sold in the next 15 months and therefore it's possible that you know the blended average of those two could be either higher or lower.

Neil McMahon,

Sanford Bernstein: Right okay, no I didn't understand that the 55 was for the entire contracted portfolio. Next question, looking at Brazil. I was wondering if there is any further detail you could give on the continuity of the sag reservoir unit across the area where you have drilled so far. And also what new wells that you in your partnership are going to be drilling that are worth watching out for over the next six months until we get an update in February?

Frank Chapman: I'm not going to try to talk about continuity. When we drilled Lara, we found there 300 metres of net pay. This was massively thick and a very positive surprise. We are finding different reservoir facies, or varying reservoir facies as we would expect in this play.

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But of course there are quite a lot of wells now being drilled and we are gaining confidence from wells over a very large area which are delivering consistent similar types of environment and enable us to make estimates of what we think the average pay will be.

I'm sure as we go along, as in all big discoveries like this the pattern will change and that's why there exists today still quite a large range in terms of the in-place volumes. But everything that's happened in the last nine months has been extremely positive. We went from Tupi, we drilled Tupi Sul it was better. We went to Carioca, it was better, we went to Guará it was significantly better and then we went to Iara which aerially is very small and we find three to four billion barrels, reserves in something which aerially is a pimple compared to Tupi.

So all good news. I'm sorry I can't give you more specific data but the whole greater Tupi area could be as big as 1800 square kilometres, this is just for Tupi, and it's a bit difficult to give you chapter and verse on reservoir facies continuity.

What I want to say to you about new wells, Neil, is that we will be drilling or re-entering Tupi Sul to re-complete that well for extended well tests that will begin in the first half of next year. And that will be up to 15 months of extended well test. We're also intending to drill a further well in the Tupi area, a further appraisal well there. And we are importantly going to be drilling Corcovado which is a BM-S-52 prospect, that's a large pre-salt prospect in shallower water. That well will be operated by BG. By the way the Corcovado well will be spudded sometime around the end of this year. And then we have the Iguacu complex to further explore in the southern part of the BM-S-9 concession. And the timing of that is still moving around.

Now as we go forward we will start to drill as we bring in these three Seadrill rigs around the end of this year and over the next year we will start to drill a more continuous programme of appraisal wells. So this programme will start to get more intensive.

So for the moment you can think about Tupi Sul and the extended well test. You can think about the other well, P1 as it's called in the BM-S-11 block, you can think about Corcovado, and timing and sequence as yet not confirmed but we've got more work to do on Iguacu.

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Neil McMahon,

Sanford Bernstein: Frank, maybe just a quick follow up on Iara, I am reading too much into the press release that was put out there that basically said it looks like this is the first field that's been seismically defined I think was the language that was used. Does that imply that the other areas and fields that you've discovered haven't been fully seismically defined yet?

Frank Chapman: I think that clearly what we've done to date is to shoot seismic for the purposes of exploration activity. We're now going back and we're shooting seismic for the purposes of development planning. I'm not quite sure what quote you're reading from, but suffice to say that we can image all of this on seismic and we're going back now to do a more intensive programme of seismic over specific areas where we're focussing development activity.

So you know there's nothing really more to be said than that.

Neil McMahon,

Sanford Bernstein: I think it wasn't so much on the visualisation, it was more on the extent of where the oil might be in the particular reservoir unit I think the quote from Petrobras. Great I'll leave it there.

Frank Chapman: Yeah I think basically that BG is still in the space of saying you know we're fairly early in the appraisal process and we like to have pressure data and we like to try to determine oil water contact from drilling activity at the moment.

Michele della Vigna

Goldman Sachs: Hi, I would like to ask two questions, the first one referring to Karachaganak. I would like to know if you don't invest in Phase III what kind of PSC effect is likely to arise in 2009/10 from the field? And then the second one on your LNG volumes, you've locked in about 50% of the volumes for 2009, have you locked in a similar amount for 2010 and also could you confirm if the volumes have been sold forward at around crude parity?

Ashley Almanza: Let me take the LNG question. Today we're only providing information on where we are with 2009. We're still working through our book on 2010 and we'll be happy to give you an update on that at a later date. Parity, it's been locked in on a range of prices. Actually, what we're trying to lock in is the margin rather than the oil price. And so it's the spread between effectively Henry Hub and JCC that we've locked in.

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Frank Chapman: Michele, I'm not going to speculate on what happens under the PSC effect at some future oil price under some hypothetical case where there is no investment in Phase III. I am confident that there will be further investment in Karachaganak because not to do so would leave a lot of reserves in the ground un-recovered and nobody wants that. All the partners want to invest, the government wants us to invest and the question here is how are we going to phase the expenditure so that we don't end up making a massive capital commitment in an ill-timed way.

So there will be a Phase III, it will be somewhat different to the current plan; it will be spread out over a longer time. I think that in order, as I said earlier, to maintain a flat plateau which would be a sensible reservoir management, minimum reservoir management outcome you're going to have to start investing during this period as we go out towards 2012.

So I don't really want to say more than that because I don't want to speculate on where the discussions with the government will end in terms of the specific way that we're going to invest in this next phase. But there will be a Phase III, of that I am very confident.

The other thing that I want to say of course from BG's perspective in terms of the potential of our portfolio, I just want to repeat my earlier statement that our targets, the achievement of the growth range that we've given is not dependent on the implementation of Phase III as it's currently planned.

Iain Reid,
Macquarie:

Hi good afternoon gentlemen. Three questions please, firstly going back to the UK gas contracts which you've renegotiated - sorry not renegotiated but put new ones in place, can you say how the linkage or how the escalators work on that? Is it the old style 2/3 inflation 1/3 energy or is it a linkage to UK gas spot prices?

And secondly on the 2009 production targets, you had in the presentation earlier in the year a range of 680 to 710,000 barrels a day and you're saying the target is now 680. Is there something in there which has maybe slipped a little bit to push you down to the bottom of that range?

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And thirdly on Asian LNG or LNG in general, as you say you've locked in 50% now of 2009. If the market is softening are you - you know is it still your intention to lock in more of those volumes as you go forward, so are we if you like somehow through the process for 2009 or is 50% your limit?

Ashley Almanza: UK gas contracts Iain, in essence you have to look at NBP and the UK gas market for the linkage of the new contracts and the new sales that we're putting in place. On LNG, we've still got markets - Chile comes on stream next year, we've got Dragon next year, so we have other markets to deliver to and we want to retain some flexibility in our portfolio to do so.

So I don't think you can read more into it than simply we've underpinned our financial results for 2009 at this stage.

Frank Chapman: 680, 710 - I think it's quite normal as we get closer to a target to narrow the range. We've in the range, we're at the bottom end of that range. The target was set a long time ago, lots of variables. The key projects which we said we would deliver which give a rise to the increase in production over this period being Karachaganak de-bottlenecking, Trinidad, Hasdrubal, you know Buzzard, Panna/Mukta Tapti particularly the Tapti NRPOD project - all of those things absolutely happening as planned, will be on stream. And also as I mentioned in my remarks earlier, three really quite big projects. Rosetta Phase III, the West Delta Deep Marine Phase IV, Poinsettia in Trinidad either the first two on production, the next one coming on production.

You know these are all the big things that we said we'd do and we are doing them. The change within the range is just for settling within that range bearing in mind all of the variables that one has on project timing, on performance of existing assets, on some things that perhaps we won't do, smaller things that we had in the plan at that point. So you know this represents in aggregate the effects of all of those.

The main thing is that we're in the range and all of the major projects are going to be delivered in accordance with our plans.

Iain Reid,
Macquarie:

Thanks Frank, just coming back on the UK gas, what percentage of the contracted gas is going to be linked to NBP, Ashley?

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Ashley Almanza: It will be more than half, Iain, and rising as we roll forward.

Mark Ianotti,

Merrill Lynch:

Good afternoon gentlemen, a couple of questions and first an easy one. On LNG this year you're now indicating guidance of £1.4 billion and that implies a final quarter of £270m which is well below what you've done in the previous three quarters of this year. It's usually one of your best quarters; you've also got the exchange rate advantage in 4Q versus the previous three quarters. I'm guessing you've been selling forward into this quarter like you're suggesting you're doing into '09. Why is the implied guidance so low for the fourth quarter 2008?

And the second question is on capex; I think it's interesting that you're indicating slowing down investment on things like Kazakhstan but pushing ahead with things like Iara and Guar. I mean what are the cost dynamics here that you see as being different, or is it simply just a case of the economics being just far superior in Brazil? And if that is the case can you maybe say where you are on Iara and Guar in terms of the major elements you're going to have to contract - FPSOs, drilling etc?

Ashley Almanza: Mark on LNG you're quite right on FX you have to market to market, we're just basing that guidance on where we are now. And as the exchange rate moves around that outturn will move as well.

In terms of Q3, Q4 some of the term supply deals that we've laid in - we've pulled forward some of the pricing to suit the customers. So the very good quarter that you see in the 3rd quarter some of that is offset by what you see and anticipate in the fourth quarter.

Frank Chapman: With Kazakhstan, really the main thing driving the Kazakhstan decision is the fact that we are now or will plan to be on the point of sanction in the fourth quarter and we feel that that is for such a major capital investment just the wrong time to be doing it.

For the projects which you mention Iara and Guar of course the capex timing for that is going to be later. We're going to sanction these things at some point in the future and the overall capex programme is going to be later. So we have more opportunity there to gain from what we believe will be a falling cost structure in the industry.

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But I also want to say that the particular nature of the finds in Brazil is such that we expect there to be not a one-time one-off investment. It will be a progressive phased long-term investment. There will be multiple phases, starting off with these pilots. So the idea of phasing Karachaganak out over a long period makes Karachaganak look more like Brazil. Instead of doing something in one great slug right at the peak of the cost cycle we're going to spread it out and it will look more like a Brazil.

So there is no more science to it than that really, Mark.

Mark Ianotti,
Merrill Lynch:

So can I just come back on the Brazil contracting, you're saying you want to get these two pilots on in 2012 I mean it can't be that long until you start thinking about contracting tenders etc? It's not too far in the future is it?

Frank Chapman:

No it's not too far in the future. We're looking at copying essentially what we're doing in Tupi and this will be a feature of how we progress the development. There will be lots and lots of look-alike developments and progressively we'll getting more efficient and more effective at doing the same thing over and over again.

So I think that the two factors I put together there, acting together, one is the commitment will be a little later but it will also be only a part of the full commitment. And by doing these pilots at this stage of course, by the way the pilots are very economic, but even if they weren't, even if they had weak economics you'd still do them because you're advancing the production profile of a huge quantity by doing the pilots earlier.

But I do want to emphasise that the pilots themselves are very, very robustly economic. No question in the minds of the partnership on that matter.

So we're very happy to push ahead with this, we're advancing the overall profile; we're getting on with the development. Contrary to what a lot of people have been saying about - you know it's technically tricky and you know it's economically challenged and are the partners all able to do it. Well here's evidence for you that we believe we can do it, we believe it's economic and we're all aligned and we're getting on with it.

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Colin Smith,

Dresdner Kleinwort: Afternoon gentlemen. I've got a couple, first on Karachaganak did I hear you correctly, Frank, say that you're now aiming for a flat plateau from Karachaganak and can you also just say where things stand on your tax negotiations and whether or not that has an impact or has influenced your decision to flatten out the investment there? That's the first question.

The second thing was just on the UK gas contracts. Can you say whether you've got or if you have any more legacy contracts that you have to roll off and if you do what sort of proportion that might be? And finally can you just give us a bit more colour on the earnings you made on the US powergen and how you see that evolving?

Frank Chapman: Just on Karachaganak, what I actually said was we're in a process of discussions, you know BG initiated this whole process and we're in a process of discussions with our partners and with KazMunaiGas and we're looking at a number of re-phasing options. So I am not saying today that the new profile will be flat, okay? Because we haven't sat down and agreed what we're going to do with our partners.

What I also said though, was that number one we don't need Phase III in its current shape to deliver on our target. And secondly, just as an indication - good reservoir management in terms of trying to optimise production would require drilling and facilities development to keep the plateau flat.

So that would give you some sort of indication of what would represent a sort of minimum case, good reservoir management outcome. So that's really what I'm saying today - what I'm able to say today with confidence.

Frank Chapman: Tax negotiations, I presume you're referring to the export duty. We're absolutely firmly of the view that we do not have to pay or we're not liable to pay this because of tax stabilisation clauses in the FPSA.

Now of course like all good citizens we've been prevailed upon to pay a tax. We are paying it and we're paying it under protest and we're using an arbitration process embodied within the FPSA to challenge the government on this matter.

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Now that is going on, it's quite separate from the issue of the way we want to do Phase III. You know this is a win-win situation for us all. We're trying to make more money out of Phase III by you know reconsidering the phasing. So the two issues are not related.

Ashley Almanza: Colin, UK gas contracts, just under 30% is still what you might call legacy contracts. Most of that - more than half of that will roll off in the next 12 to 24 months. On power, US power turned in around \$10 million in the quarter and that was disappointing because of a weak demand in the northeast so we would expect a stronger result this time next year.

Colin Smith,

Dresdner Kleinwort: Okay thanks. Sorry just on Karachaganak does the figure you're reporting in the current numbers, is that net of the export duty that you're paying under protest?

Ashley Almanza: Yes.

Jon Rigby, UBS: Hi guys. I've got a few questions. The first is given what you've said about your LNG outlook and also given what is a fairly structural change on your nat gas pricing in the UK, will those two feature in any kind of discussion or debate around what you're going to pay as your dividend going forward. I noticed that Ashley said that your capex requirement's fairly easily funded organically and your payout ratio does look fairly skinny.

The second is just on Brazil. I've got a lot of respect for Petrobras as an operator but the track record in Brazil is that stuff does come on late, so what type of risking have you applied or have you applied risking around your expectation about when those two start up. And I'll probably finish there so just those two questions please.

Ashley Almanza: Jon, on the dividend LNG results and UK gas price form part of the overall profile of earnings and cash flow going forward. So naturally they will form part of our deliberation. Our dividend policy I don't see changing. That is to say, our policy is to provide shareholders with long-term real growth in a dividend in line with underlying growth in our earnings and cash flow profile. We're investing very heavily and we expect our earnings and cash flow to grow at a multiple of the industry average. Consequently we would expect our dividends to grow in line with that underlying earnings.

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On the yield I don't foresee any time soon that we're going to flip from being growth oriented to a yield stock but I do expect constant progress in our payout.

Frank Chapman: On Brazil I mean there's no question that moving from the exploration phase where we are today to having the first pilot on stream producing by the end of 2010, there is no question that is a demanding target. We are extremely encouraged by Petrobras's commitment to deliver this target and we are working extremely closely with Petrobras in an integrated fashion, also with the other partners, closely collaborating in an effort to underpin that. It is a demanding target but we believe it can be done and we're all committed to delivering on that.

Lucas Herrmann,
Deutsche Bank:

Thanks very much gents good afternoon. A couple of questions if I might. The first is - I'm a bit confused on Kazakh export tax and quite how you are or aren't accounting for it and I guess Ashley it goes back to your comment that your opex per barrel which includes obviously insurance royalties etc, you know holds at 6.50. So with the observation you've just made that you're not accruing for the export tax yet in terms of your P&L or reported numbers, and if you are then I just don't quite understand how the opex number hasn't shifted.

Second question, on costs in general and LNG and Australia in particular. Your view clearly is that costs are now starting to come back. I just wonder whether you could give any indications around what you're seeing on your development costs or LNG. The reason I ask is simply that when I look at the economics that seem to come out on the QGC project they are very, very favourable. And the question in part obviously is how robust you feel at the present time about the capex guidance you gave for the original train six months ago.

And finally, whether you'd just care to make any comment on developments in Oman or whether we should wait till February for any comments there.

Ashley Almanza: Lucas, we're not accounting for export duty as operating cost, we're netting it off our realisation. So we're treating that on a net-back basis which is why you don't see a change in the unit opex.

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Frank Chapman: On LNG costs we agree with you. On the cost structure we think the cost structure is very favourable and very competitive. We are going to be working very diligently on the way we structure these contracts such that we can access any downward movement in materials and equipment costs that occur during the period of the construction of this plant. So we're going to be looking at alternative contracting strategies whereby we can get to share in any downturn costs that come along.

Now in terms of the capex guidance which we gave six months ago, what I want to do there is to come back to you further into the FEED with an update on the capex because we need to you know fully complete if you like the FEED work, and we also need to take account of the fact that we're doing two trains now or expect to make progress with reserves maturation that will support two trains and will come back with a more complete picture deeper into the FEED. Suffice it to say, two trains are more economic than one and we're optimistic therefore that the economics of this CSG-based LNG scheme will be even more competitive than we envisaged when we embarked on a single train project.

Lucas Herrmann,
Deutsche Bank:

And Frank, just to stay on those costs have you had any dialogues with Santos or others about pipeline costs, about the scale of the pipeline and joining each other on the development of a pipeline from Surat through to Gladstone.

Frank Chapman: I actually believe that we are going to need quite a lot of new infrastructure because of the large volumes involved. So collaboration on pipelines may not be the most obvious area for collaboration. Collaboration on things like bridges to Curtis Island, roads, maybe even loading terminal, these are more obvious areas where we would collaborate but I do want to emphasise that under this new structure BG is unconstrained in the way it wants to progress this project.

We're using for the LNG plant known technology, we've built four of these plants before, it will be a look-alike to trains 1 and 2 in Egypt and 2 and 3 in Trinidad. We know how to do it. We're going to use that same technology. We don't have any partnership issues; we don't have any learning curve. We're going to get on with it and what we don't want to do at this stage is cause ourselves to be delayed by others in more complex contractual or partnership arrangements who perhaps don't understand as well as we do how to do one of these projects.

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Ashley Almanza: Lucas, the other thing is of course that our production is more or less south of Gladstone whereas it's likely that Santos's production for this plant is going to come from west. So, not huge scope for the major portion of the pipeline to be shared.

Frank Chapman: Yeah I mean we're talking about you know a bcf a day pipeline so I mean the economics of this have become a little less obvious to putting together to make a 2 bcf a day pipeline instead of a 1 bcf. You're already at a significant scale advantage here at 1 bcf a day.

Oman, we're now currently drilling our fifth well which is ABB6 and we're going to be fracing 5 and 6 in the coming weeks. We have produced 2 and ABB4 is currently on a long-term production test and results from that are very encouraging. We won't know about the full extent of the in-place of volumes until we have drilled at least two more wells and possibly more. But to date, this is a tight gas plan. Of course one of the big concerns when you're doing this is whether you're going to be able in a sustainable way to produce hydrocarbons to surface and I'm very pleased to say that ABB4 has been flowing at significant rates for quite an extended period already and we're encouraged by the performance of that simple vertical well. So not much more to say at the moment on Oman but you know we're encouraged.

Kenan Najafov,

Exane BNP Paribas: Good afternoon gentlemen. I have a few questions. First question is about the LNG 2009 EBIT guidance. I was wondering what price assumptions underpin the guidance. I understand it assumes current commodity prices but what does that mean in terms of assumed LNG prices.

Ashley Almanza: It's not just LNG prices, the two most important markers here are oil price and Henry Hub and those are roughly 70 and 7 respectively, \$70 a barrel, \$7 Henry Hub.

Kenan Najafov,

Exane BNP Paribas: And what does that mean in terms of LNG prices?

Ashley Almanza: Those are the two relevant markers. We don't disclose by customer or even in aggregate what LNG prices we're realising. You have to look at our total results historically rather than forward looking, you have to look at our total results in shipping and marketing and divide into turnover each quarter and you'll get the average realisation. But we only give that data historically.

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Kenan Najafov,

Exane BNP Paribas: Absolutely yes. I have looked at this historical data but basically the reason for my question is that considering the slowdown in the spot market and the incoming supply of contracted in huge quantities next year, it would be crucial to understand to test the impact of this spot price for your guidance and for your LNG performance next year.

Ashley Almanza: Yes, and of course we've taken the arrival of those new volumes into account in putting together our guidance for 2009. I think it's also relevant to note that most of those new volumes are back-stopped against a contract. In other words they have a home to go to, they're not going to be roaming the high seas looking for a home and that's relevant of course as well when you think about BG's portfolio and the result that we're guiding on.

Kenan Najafov,

Exane BNP Paribas: Absolutely, and that's why basically it could still take out some volume from the spot market. But I understand you can't elaborate on this.

Ashley Almanza: Yeah we don't anticipate any curtailment of our volumes as a result of those new volumes coming into the market. And as I say in coming to a view we've considered those new volumes coming into the market but there is a portion of our portfolio which will continue to be exposed to price that we regard as desirable and as I mentioned earlier we have markets in South America, North America and Europe as well as Asia.

Kenan Najafov,

Exane BNP Paribas: I have two more questions. One last question on LNG. Considering the locked LNG volumes could you tell us if they are predominantly equity volumes or are these third parties. And the reason I'm asking is because of the impact on the group in general, as opposed to just one segment.

Ashley Almanza: It's a combination of equity and contracted volumes. We don't think it's sensible to differentiate really. You have to look at our LNG supply as a single lump that's then distributed to the markets on the most favourable basis. So it will be a mix of both.

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Kenan Najafov,

Exane BNP Paribas: Thank you. And the final question is on Brazil capex. Considering the fast tracking of Tupi and well commercial production as well as the other pilot projects could you please tell us the capex impact on 2009 and 2010?

Frank Chapman: Well our capex guidance for 2009 actually for the period of 2007 to 2009 is £8.8 billion and I think that the next year's capex is £3.2 billion in total.

Ashley Almanza: That's correct. There's no change today to our capex guidance. There's, as you would have gleaned, a number of moving parts. We will provide an update to the market in February including an update on the effect of the QGC acquisition where we would expect to bring forward capital expenditure to promote the two-train LNG project and the development of the upstream.

Neil McMahon,

Sanford Bernstein: Hi, a quick question on Trinidad LNG. There have been plenty of press reports around that the Trinidadian government is looking to renegotiate some contract terms for those that had preferential rights for lifting cargoes I think from trains 2 and 3. I don't know if you fall into that category. And secondly what is the overall decline rates looking to feed the LNG trains 1 through 4 in Trinidad over the next few years.

Frank Chapman: The renegotiation of terms for contracts as it's been reported in the press, I have to say at present that the principal trains that we are delivering to the largest volume is of course the trains 2 and 3 and indeed the proportion that we supply to train 4, already have in place equitable sharing mechanisms for any cargo diversions. That's not the case for all contracts but that is the case for ours. And I think that when one contemplates some of the rhetoric that's circulating in the media one needs to look a little bit deeper under that to determine if there are any differences that exist between the four trains and between the various players and the various licence conditions which feed those trains.

Decline rates, well all I can tell you at the moment is that we are in the plateau phase. We are developing for example Poinsettia; we are developing subsequent phases of East Coast Marine Area, Dolphin and Dolphin Deep.

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I'm very pleased to report the continued upgrading, the trend of upgrading the reserves in Dolphin and we now believe that the ultimate recovery from Dolphin is going to be somewhere around 5 trillion cubic feet as compared to the 1.1 to 1.2 trillion cubic feet that we envisaged when we originally sanctioned that project. The issue for us in Trinidad today is how to get more of the gas that we're discovering commercialised and into increased LNG exports. That's the challenge for us and we are engaged in discussions with the government as to how we can achieve that.

Jason Kenny, ING: Hi there one very short question if possible, just on the LNG guidance again, 1.4 billion. Is there some rounding in there? Could we assume 1.44 or 1.36?

Laughter

Frank Chapman: It's a good question Jason.

Ashley Almanza: We would not claim to have pinpoint precision on any guidance and you can round up or down as you see things. I'd leave it like that.

Jason Kenny, ING: Thanks very much. I thought I'd try anyway.

Frank Chapman: It's a polite way of saying I'm not telling you.

Jason Kenny, ING: I don't know why I asked to be honest but there we are.

Frank Chapman: No it's good, good bit of fun.

Dave Thomas,

Citigroup:

Good afternoon gentlemen. Sorry to drag this on a bit longer but a couple of questions on production please. Firstly on the production targets for 2009/2012. Can you just confirm that these now include contributions from QGC and in terms of 2009 680,000 barrels a day, that's at kind of the bottom end of previous guidance and are you perhaps being a little conservative and if it does indeed include QGC.

And the final question is back on Karachaganak on the export taxes. Could you just say what the quantum is in terms of the effect on quarterly earnings in cash flow and what would happen, what's your expectations if you are successful in arguing your case and what the timing would be for recovery.

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Frank Chapman: On the production I think that it's fair to say that the amount of incremental production, I want to emphasise that incremental production, flowing from the acquisition of QGC actually is quite small in the context of the 2009 and 2012 targets given the fact that acquisition is dominated by the consideration of developing supply for LNG export which will come after this period. So it's quite small and if I stack it up against a series of other pluses and minuses that are in the portfolio and decisions that we'll make on investment, we do not regard this as particularly significant in the context of the 2009 and 2012 targets. Export taxes?

Ashley Almanza: The tax is levied at up to \$200 a tonne so you can do the arithmetic. I think that as we said before we don't believe that this is a tax that's due and we would seek to recover that in future periods. But up to \$200 a tonne.

Frank Chapman: Just to go back on the previous answer. We are talking about numbers here which are, incremental numbers, in the 5 to 10,000 barrels a day sort of range.

Ashley Almanza: You're talking about QGC.

Frank Chapman: I'm talking about QGC so we are really talking about numbers that are 1%-ish, so we're not really regarding those as in the context of the overall portfolio. It's not particularly significant against the targets.

Neil Morton,
MF Global:

Good afternoon, just a couple of things left. You're showing impressive growth in your proven and probable reserve base this year. Of that 2 billion barrel increase could you perhaps say roughly the split between QGC versus Brazil versus rest of world? And just secondly on the Santos, you mentioned the economics and technical issues being viable. Those are two aspects but I guess in terms of the tightening of development Brazil has itself raised doubts over whether it can finance and manage the growth of a domestic oil services sector in a timely fashion. I mean would you agree that's still perhaps the bigger risk with regards to development?

Frank Chapman: First off let me say that in terms of general funding it's clear that regardless of what has been said in the media and reported recently about concerns on funding and all of that, that Petrobras, ourselves, Galp, Repsol, all 100% behind these projects.

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They feature at the top of our agenda for development and we are all pushing ahead with these projects as top priorities in our respective portfolios.

Now what's happening more broadly with these partners funding capacities and priorities, that's clearly a subject for them to address but I am confident that we are dealing here with projects where these is a common view. They are at the top of all of our agendas.

Now with regards to domestic services, I understand the point you're making. What is the extent to which the local content part of the equation can develop in step? And there are two parts to that. Firstly, the local content requirements in our contracts are not particularly onerous. And secondly, being at the front of this we are quite a way in front of the other parties that are going to start and have recently started their exploration programme. So at the moment we are pushing ahead. We do not foresee right now local capacity constraints on the furtherance of these developments that I've outlined today.

Neil Morton,
MF Global:

And the reserves growth this year?

Frank Chapman: We're not going to give you a split. There's not a huge amount in the 2P, as you can see even if you took all of the 2P reserves from QGC, you can see that the majority of this three quarters of it or more is coming from somewhere else. And that somewhere else is balanced between Brazil and the significant other discoveries that we've made in the year. So I mean that's the way we can put that at this point.

Ashley Almanza: Happy to give you a bit more visibility in February.

Neil Morton,
MF Global:

Okay that's great I'll wait till then. Thank you.

Frank Chapman: The important thing in all of this is that there's a progression. There's a progression from exploration - risk exploration potential through to unbooked resources through to 2P and these are all of course precursors to moving these reserves further down that funnel into the proved categories. So this is good progress, you know very good progress enforcing this stuff down into you know the 2P category as we've managed to progress appraisal and development planning.

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Frank Chapman, Chief Executive

Well thank you everyone for an active Q&A session. We've all enjoyed it immensely at this end and thank you very much for the interest that you've shown in BG Group.

In summary, I would say:

- we've had an excellent exploration and appraisal performance and results this year, notably in Brazil. Earlier production now expected there;
- targets for 2009 and 2012 are on track and we've got an increased confidence in the potential of the portfolio to sustain the 6 to 8% compound growth out to 2020;
- we've lifted our LNG profit guidance for 2008 and 2009 and confirmed the goal of 20 million tonnes of LNG supply by 2015;
- we have today obtained a control of QGC and we've delivered another strong set of results and more than doubled our operating profit and earnings per share.

Thank you very much once again for taking part in the conference call today and I'd like to remind you that we'll be announcing our fourth quarter results on the 5th of February 2009 when we'll also be providing you with our annual strategy presentation. Thank you once again and goodbye.