



Rating: None
 S&P 500: 1425

BG Group plc Global LNG and Brazil Oil

<i>Symbol</i>	BRGXF	<i>Ebitda Next Twelve Months ending 3/31/09 (US\$mm)</i>	11,800
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	3
<i>Price (US\$/sh)</i>	25.15	<i>Natural Gas and Oil Production/Ebitda (%)</i>	75
<i>Pricing Date</i>	5/16/08	<i>Adjusted Reserves/Production NTM</i>	7.3
<i>Shares (mm)</i>	3381	<i>EV/Ebitda</i>	7.7
<i>Market Capitalization (US\$mm)</i>	85,000	<i>PV/Ebitda</i>	8.5
<i>Debt (US\$mm)</i>	5,000	<i>Undeveloped Reserves (%)</i>	35
<i>Enterprise Value (EV) (US\$mm)</i>	90,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	38.30
<i>Present Value (PV) (US\$mm)</i>	99,800	<i>Present Value Proven Reserves(US\$/boe)</i>	31.96
<i>Net Present Value (US\$/share)</i>	28	<i>Present Value Proven Reserves(US\$/mcf)</i>	5.33
<i>Debt/Present Value</i>	0.05	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.77
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	14
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.18
Note: Estimated cash flow and earnings tied to one-year futures prices for oil.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$14 a million btu.			

Summary and Recommendation

At a McDep Ratio of 0.90, the shares of **BG Group plc (BRGXF)** offer attractive long-term participation in oil and gas production, liquefied natural gas (LNG) and new discoveries offshore Brazil. Initially, we estimate net present value (NPV) of US\$28 a share including 20% for a highly promising downstream LNG business and 24% for the Tupi and Carioca discoveries. First quarter results released on April 30 coincided with an announcement of a US\$12 billion offer to acquire Australian company Origin Energy, primarily for its coal seam gas reserves that could supply a new LNG project. Meanwhile, estimated volumes from BG's current business along with current futures prices promise a continuing high level of unlevered cash flow (Ebitda) (see table Next Twelve Months Operating and Financial Estimates). NPV for oil and gas production is supported by projected cash flow capitalized at unlevered multiples (PV/Ebitda) related to reserve life (Adjusted R/P) (see table Functional Cash Flow and Present Value). Oil and gas reserves and production have expanded widely from the company's original UK base when it was part of the British government natural gas utility (see table Production and Reserves, 2007). Global expansion extends to Brazil where BG has 25% of the Tupi oil discovery by **Petrobras (PBR)**, which has 65%. Our assessment of the prospective value is proportional to our previously estimated value for Petrobras, adjusted for our new \$100 oil price basis.

Kurt H. Wulff, CFA



BG Group plc								
Next Twelve Months Operating and Financial Estimates								
(British Pounds)								
								<i>Next</i>
	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Twelve</i>
	2007	3/31/08	6/30/08	9/30/08	12/31/08	2008E	3/31/09	Months
								3/31/09
Volume								
Natural Gas (bcf)	936	261	235	237	237	971	258	968
Natural Gas (mmcf/d)	2,564	2,868	2,581	2,581	2,581	2,660	2,868	2,652
Days	365	91	91	92	92	366	90	365
Oil (mmb)	64	17	17	17	17	69	17	69
Oil (mbd)	175	189	189	189	189	189	189	189
Total gas & oil (mmb)	220	61	56	57	57	231	60	230
Total gas & oil (mbd)	602	667	619	619	619	632	667	631
Price								
U.S. Dollar/U.K. Pound	2.01	1.98	1.94	1.94	1.94	1.95	1.94	1.94
Natural gas (pence/therm)	19.40	23.87	23.87	23.87	23.87	4.66	23.87	4.63
Oil (\$/bbl)								
WTI Cushing	72.28	97.94	120.36	123.86	123.08	116.31	122.15	122.36
Company	65.41	98.49	121.03	124.55	123.76	117.11	122.83	123.05
Total gas & oil (\$/bbl)	35.57	48.25	56.25	57.32	57.08	54.64	54.72	56.32
NY Harbor 3-2-1 (\$/bbl)	14.37	7.57	13.65	12.76	9.80	10.95	12.07	12.07
Revenue (million pounds)								
Natural gas	1,816	623	561	567	567	2,317	616	2,310
Oil	2,084	855	1,073	1,116	1,109	4,153	1,077	4,376
Total production	3,900	1,478	1,634	1,683	1,676	6,471	1,693	6,686
Other	4,430	1,628	1,628	1,628	1,628	6,514	1,628	6,514
Total	8,330	3,106	3,262	3,312	3,305	12,984	3,322	13,200
Expense								
Production	1,341	443	521	546	543	2,053	549	2,159
Other	3,433	1,125	1,293	1,293	1,293	5,003	1,125	5,003
Ebitda (million pounds)								
Production	2,559	1,034	1,111	1,145	1,140	4,430	1,151	4,547
Other	997	504	336	336	336	1,511	504	1,511
Total Ebitda	3,556	1,538	1,447	1,480	1,475	5,940	1,655	6,057
Exploration	104	97	97	97	97	388	97	388
Deprec., Deplet., & Amort.	681	218	218	218	218	872	218	872
Excess tax and other	477	179						
Operating Income								
Upstream	2,387	942						
Downstream	861	460						
Excess tax and other	(477)	(179)						
Ebit	2,771	1,223	1,132	1,165	1,160	4,680	1,340	4,797
Interest	27	11	11	11	11	44	11	44
Ebt	2,744	1,212	1,121	1,154	1,149	4,636	1,329	4,753
Income Tax	960	424	392	404	402	1,623	465	1,664
Net Income (million pounds)	1,784	788	728	750	747	3,014	864	3,090
Shares (millions)								
Per share (pence)	52.2	23.3	21.5	22.2	22.1	89.1	25.5	91.4
Ebitda Margin (E&P)	66%	70%	68%	68%	68%	68%	68%	68%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%



BG Group plc					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
Rest of World Natural Gas	3,060	7.6	7.8	24,000	24%
Oil	5,800	6.5	5.5	32,000	32%
Downstream	2,940		6.8	20,000	20%
Offshore Brazil				24,000	24%
	11,800	7.3	8.5	100,000	100%
Debt (US\$mm)					5,000
Net Present Value (US\$mm)					95,000
Shares (mm)					3,381
Net Present Value - Standard Estimate (US\$/sh)					28
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					26

BG Group plc								
Production and Reserves, 2007								
								<i>NTM</i>
				<i>12/31/2007 Proven Reserves</i>			<i>Weighted</i>	<i>Adjusted</i>
		<i>2007 Production</i>	<i>Developed</i>	<i>Undeveloped</i>	<i>Weighted</i>	<i>Life Index</i>	<i>R/P</i>	
		<i>(daily)</i>	<i>(annual)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(years)</i>	<i>(years)</i>
Rest of World Natural Gas								
UK		526	192	807	217	916	4.8	
Atlantic Basin		1,274	465	1,897	2,665	3,230	6.9	
Asia and Middle East		523	191	2,046	335	2,214	11.6	
Rest of World		247	90	822	407	1,026	11.4	
Total		2,570	938	5,572	3,624	7,384	7.9	7.6
Oil								
UK		75	27	139	28	153	5.6	
Atlantic Basin		8	3	9	5	12	4.1	
Asia and Middle East		86	31	223	64	255	8.1	
Rest of World		7	2	22	16	30	12.5	
Total		175	64	393	113	450	7.0	6.5
Total Oil Equivalent		603	220	1,322	717	1,680	7.6	7.3

McDep LLC
Custom Analysis
May 19, 2008



Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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