BG International Limited

Annual Report and Financial Statements

For the year ended 31 December 2009

Company Registration Number: 902239

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Directors' report for the year ended 31 December 2009

The Directors present their report and the audited Financial Statements for the year ended 31 December 2009

Business Review and Principal Activities
BG International Limited (the "Company") was incorporated on 30 March 1967 for the principal activity of the exploration for, and production of, oil and gas hydrocarbons in the United Kingdom and overseas which, for the purposes of the Companies Act 2006, constitutes one class of business

The Company is a wholly owned subsidiary of BG Energy Holdings Limited which is, in turn, a wholly owned subsidiary of BG Group plc, the ultimate holding company of BG Group The Company, its subsidiaries, subsidiary undertakings and share of jointly controlled entities and associates participate in oil and gas activities across the whole range of oil and gas operations, from exploration to the final consumer

As shown in the Company's profit and loss account on page 11, turnover of the Company increased by 10% during the year to £1,233 million (2008 £1,119 million) Profit on ordinary activities before tax increased to £1,176 million (2008 £1,137 million) as a result of income from subsidiary undertakings, though this was offset by an impairment charge of £293 million (2008 £nil) during the year

The balance sheet on page 12 shows that the Company's financial position has weakened, with net assets falling by 23% This is principally due to higher dividends paid to the parent company during the year and a greater revaluation loss on the Company's investment in BG Karachaganak Limited Details of amounts owed to group undertakings are shown in note 17 to the Financial Statements

The Company's most recent activities have broadly been as follows

<u>United Kingdom and Continental Shelf ("UKCS")</u>

In September 2009, BG Group announced the completion of an exchange of equity interests in certain North Sea production assets with subsidiaries of BP plc ("BP") As part of the deal, the Company acquired a further 21 14% and 22 22% of the Everest and Lomond fields respectively, and also a 29 30% stake in the Erskine field (Note total BG Group share of this field stands at 32 00%, with the remaining 2 7% owned by BG North Sea Holdings Limited, a fellow group undertaking of the Company) The acquired fields are all located in the UK central North Sea In return, BG Group transferred its equity interests and operatorship in fields in the southern North Sea to BP As part of the transaction, the Company took over operatorship of Everest and Lomond

The asset exchange demonstrates the Group's commitment to the UKCS It consolidates and strengthens BG Group's position in the central North Sea and gives the Group control of key infrastructure hubs, allowing the operational performance of mature fields to be optimised and the development of other opportunities in the surrounding area

Production from Everest and Lomond fields was 7 40 million barrels of oil equivalent ("mmboe") (2008 8 05 mmboe) All gas produced by Everest and Lomond is exported to the shore via the Central Area Transmission System ("CATS" pipeline) The Company holds a 51 18% interest in the CATS pipeline and terminal that transports gas to processing facilities in Teeside Onshore, the CATS terminal consists of two processing trains with total capacity of around 1,200 million standard cubic feet per day

Directors' report for the year ended 31 December 2009 continued

Business Review and Principal Activities continued

United Kingdom and Continental Shelf ("UKCS") continued
In addition, the Company holds 30 50% in J-Block which was brought onstream in July 1997 The Company holds 35 00% in the Jade field which began production in February 2002 Jade gas and liquid production is transported to the Judy platform and commingled and processed with the J-Block streams, before being exported to shore via the CATS pipeline J-Block currently produces from 16 wells and Jade produces from 8 wells Production from J-Block and Jade fields in 2009 was 9 47 mmboe (2008 10 25 mmboe)

The Company owns other interests in the UKCS via its wholly owned subsidiary undertakings BG Norge Limited, BG International (CNS) Limited and BG International (NSW) Limited

Kazakhstan
The Company, through its wholly owned subsidiary undertaking BG Karachaganak Limited, owns a 32 5% interest in the Karachaganak field in north-west Kazakhstan The Karachaganak Field is one of the largest oil and gas condensate fields in the world that, in 2009, produced 41 5 mmboe (2008 39 8 mmboe) net to BG Group Output was lower than anticipated due to the adverse economic conditions

During 2009, 3D seismic data was acquired across Karachaganak The survey finished ahead of schedule with zero recordable incidents after 777,000 hours and 1 15 million kilometres driven The detailed 3D survey is expected to yield considerable benefits as the Karachaganak field enters future stages The final results are not expected until 2011

The fourth stabilisation train project, sanctioned in 2006, is now due to be onstream in 2011 The expanded project includes 13 additional wells and is anticipated to increase export oil sales to more than 10 million tonnes per annum (mtpa) and develop gross reserves of 300 mmboe

In 2009, BG Karachaganak Limited has been reviewing the Karachaganak Phase 3 development plans Partners have aligned around a new multi-stage Phase 3 concept which would yield improvements in manpower profile and cost phasing, and would deliver improved economics for investors and government alike BG Karachaganak Limited is in discussions with the government on the shape and timing of this programme

A key export route for Karachaganak production is via the CPC pipeline (BG Group 2%) In December 2009, shareholders agreed to expand the pipeline, which will more than double capacity by 2015, subject to a final sanction decision expected towards the end of 2010 BG Karachaganak Limited and the Karachaganak partners will have additional firm capacity and the opportunity to capture capacity unused by other shareholders

Libya
In 2009, the Company completed its committed two-well work programme in the Sirte Basin in Libya and the block has since been relinquished The Company has drilled a dry well in the Kufra Basin

Norway
The Company, through its wholly owned subsidiaries BG Norge AS and BG Norge Limited, started its Norwegian operated exploration drilling programme in 2007 In August 2009, BG Group concluded the drilling of appraisal wells on the Bream (BG Group 40% and operator) oil discovery The appraisal wells confirmed the extent of the reservoir and extensive data acquisition and sampling were carried out Concept screening is now underway to evaluate development opportunities

Directors' report for the year ended 31 December 2009 continued

Business Review and Principal Activities continued

Norway continued
The Jordbaer discovery is regarded as a potential play opener, with a number of similar prospects in BG Group-held licences in the vicinity An exploration well was drilled on a separate structure called Jordbaer East in fourth quarter 2009 The well encountered residual hydrocarbons, but not in commercial quantities A new exploration well spudded in the adjacent Blabaer (BG Group 45% and operator) licence in January 2010

In December 2009, BG Group spudded the high-pressure/high-temperature Mandarin prospect (BG Group 96% and operator) in the southern North Sea, close to the border of the UKCS The well encountered no commercial hydrocarbons and was subsequently written-off in June 2010

In 2008, a discovery of a gas and oil accumulation was declared on Pi North (BG Group 60% and operator) A decision has been made to tie-back the Pi discovery to the BG Group operated Armada field in the UK

In 2009, BG Group was awarded 40% equity and operatorship in each of PL522 (Gullris) in mid-Norway and PL 534 (Samson Dome) in the Barents Sea A new 3D seismic survey was completed in 2009 in the Gullris licence

Oman
During 2008 and 2009, the Company drilled seven wells to target depth on Block 60, which contains the Abu Butabul gas and condensate discovery The Company has carried out sufficient appraisal work to delineate the main section of the field and no further appraisal wells are planned to be drilled A decision was taken in the second quarter of 2010 to discontinue exploration activity in Oman and exit the concession This resulted in an impairment charge of £128m against the asset (see Note 4)

Chile
Construction of the gas facilities in the GNL Quintero ("GNLQ") regasification terminal in Quintero Bay, Chile, was completed in July, approximately two years after construction commenced GNLQ became the first fully land-based regasification facility in the southern hemisphere and the first regasification terminal to commence operations on the west coast of South America

The plant is being built in a phased approach with the early gas capacity of 1 5 million tonnes per annum ("mtpa") being expanded to 2 5 mtpa when the terminal is fully operational in third quarter 2010 The Company is a 40% shareholder in GNLQ and has a contract to supply up to 1 7 mtpa LNG for 21 years During 2009, eight cargoes were delivered to the terminal Chile is an attractive market which is short of gas and where demand is counter-seasonal to northern hemisphere markets

Egypt
The Company, through its wholly owned subsidiary, BG Delta Limited, has a 50% interest in Burullus Gas Company SAE (Burullus), a joint venture company formed by BG, Petronas and EGPC Burullus undertakes exploration, field development and operations on behalf of the West Delta Deep Marine ("WDDM") concession holders

Net production from WDDM was 47 7 mmboe in 2009 (2008 48 9 mmboe) In May 2009, the Company announced the start up of Phase 5, a compression project in the WDDM concession to extend plateau production from WDDM reservoirs

Directors' report for the year ended 31 December 2009 continued

Business Review and Principal Activities continued

Egypt continued
In August 2009, BG Delta Limited announced the delivery of first gas from the Sequoia sub-sea development located 90 kilometres offshore Egypt in the Mediterranean Sea Straddling both the WDDM (BG Group 50%) and adjacent Rosetta (BG Group 80%) concessions, the Sequoia unitised development brings into production six new sub-sea wells, three located in each of the concessions, which will help maintain overall plateau production

After sanctioning Phase 7 in 2009, BG Delta Limited is currently evaluating future phases of WDDM that will extend the current production plateau

Nigeria
The Company, through its wholly owned subsidiary, BG OKLNG Ltd, has a 14 25% interest in the proposed liquefaction plant at Olokola (OKLNG) on the south-western coast of Nigeria A Shareholders Agreement was signed in March 2007 between the Nigerian National Petroleum Corporation, Shell, Chevron and BG OKLNG Ltd, which includes the development of the launch project and any future expansions

Trinidad
The Company, through its wholly owned subsidiary undertaking BG Trinidad 5(A) Limited, owns the entire right, title and interest in Block 5(a) properties located in the East Coast Marine Area relating to Trinidad oil and gas operations Block 5(a), which contains the Dolphin Deep field, is governed by a signed Production Sharing Contract (PSC) with the President of the Republic of Trinidad and Tobago and the Minister of Energy and Energy Industries BG Trinidad 5(A) Limited owns a 50% interest in the Block

The Dolphin Deep field was developed as a subsea well program with a tie-in to the existing Dolphin platform under a Joint Use Arrangement with the Dolphin field (interest in this field held by the Company's fellow group undertaking, BG Trinidad and Tobago Limited) Hydrocarbons from the Dolphin Deep field, along with condensate, are sold to the domestic and export markets Production volumes from the Dolphin Deep field were 8 28 million barrels of oil equivalent (mmboe) in 2009 (2008 5 73 mmboe)

For a more detailed review of the principal activities, development and performance of the business during 2009 and the position of BG Group at the end of the year, please refer to the BG Group Annual Report and Accounts 2009 – Business Review on pages 2 to 37

Principal risks and uncertainties
The Company is subject to a broad range of risks such as political, commodity prices, reserves replacement, people resource and project delivery risks

In addition, the Company faces risks which affect both the Company and BG Group as a whole These risks are managed at group level on behalf of the Directors' of the Company

Group risks are discussed in the BG Group Annual Report and Accounts 2009 which does not form part of this report.

Key performance indicators ("KPIs")
The performance of the Company is monitored, reviewed and assessed at group level, and therefore the Directors are of the opinion that analysis of the business of the Company using KPIs is not appropriate for an understanding of the development, performance or position of the business of the Company For further information about KPIs, in the context of the group as a whole, please refer to the BG Group Annual Report and Accounts 2009

Directors' report for the year ended 31 December 2009 continued

Employees
The Company had 1,802 (2008 1,572) employees worldwide at 31 December 2009, of which 450 (2008 459) were based outside the UK There are well established and effective arrangements for communication of the Company's results and significant business issues for employees of the Company and its wholly owned subsidiaries through electronic mail and the BG Group intranet and in-house publications, as well as DVDs and briefing meetings at each business location When necessary, consultation with employee and union representatives also takes place

The Company takes a positive approach to equality and diversity and encourages its partners to do likewise By tapping into the talent and skills available in all groups and communities in the countries in which it operates, the Company underpins the lasting success of its enterprise The Company achieves this by using appropriate recruitment and selection techniques, ensuring equality of employment opportunity and equal access to development opportunities for all employees and potential new hires

The Company is also committed to providing a work environment free from harassment and discrimination and remains committed to fair treatment of people with disabilities in relation to job applications, training, promotion and career development Every effort is made to find appropriate alternative jobs for those who are unable to continue in their existing job because of disability As with the approach to equality and diversity, the Company encourages its partners to have a similar approach to these issues where Company policies are not able to be implemented directly

Certain employees of the Company and its wholly owned UK subsidiaries are encouraged to become shareholders in the Company's ultimate parent company (BG Group plc) and a significant number are members of its Sharesave Scheme and the Share Incentive Plan (SIP)

The Company participates in the group's policies and practices, including BG Group's Business Principles For further information about the group's policies and practices, please refer to the BG Group Annual Report and Accounts 2009

Research and development
Expenditure on research and development is made to enable the Company to continuously build and develop its core competencies in gas chain technologies In this way, the Company maintains its ability to leverage superior value from its ongoing business operations and new opportunities Expenditure on research and development in 2009 was £10m (2008 £11m)

Results and dividend
The profit for the year ended 31 December 2009 of £1,068 million (2008 £1,022 million) has been transferred to reserves The Directors declared and paid an interim dividend of £1,510 million for the year ended 31 December 2009 (2008 £947 million) The Directors have not proposed a final dividend (2008 £nil)

Post balance sheet events
In 2010, an impairment charge of £163m was made in respect of the Canada and Oman assets (see Note 4) In accordance with FRS 21, "Events after the balance sheet date", the impairment charge has been included in the Company's profit and loss account for the year ended 31 December 2009

Directors' report for the year ended 31 December 2009 continued

Directors
The following served as Directors during the year

	Appointed	Resigned
A M Almanza		
J A Berget		
C R Bland		4 September 2009
R C Booker	4 September 2009	
M M Carne		10 November 2009
F J Chapman		
Sir J D K Grant	7 September 2009	
M J Houston		
C G Finlayson	11 August 2010	
S M A Iskander	4 September 2009	

Company Secretaries
The following served as joint Company Secretaries during the year and up to the date of this report

	Appointed
K M Hubber	
C S Inman	
A W McCulloch	
R L Dunn	14 January 2010

Directors' insurance
The ultimate parent undertaking has purchased insurance to cover the Directors against liabilities in relation to the Company

Directors' remuneration
For details of the directors' remuneration, see note 7 to the Financial Statements

Community involvement
During the year, the Company donated £106,857 (2008 £254,660) to registered charities in the UK

Under BG Group plc's Statement of Business Principles, it is the Group's policy not to make donations for political purposes In 2009, no donations were made in any EU member state for political purposes, as defined in Section 364 of the Companies Act 2006 For further information on BG Group's social investment, please refer to the BG Group Annual Report and Accounts 2009 – Corporate Responsibility on pages 34 to 37

Suppliers
It is the Company's policy to pay all its creditors promptly and in accordance with contractual and other legal obligations It is the Company's policy to agree the payment terms at the start of business with each supplier and to ensure that they are aware of the terms of payment

The Company had 2 days' purchases outstanding at 31 December 2009 based on the average daily amount invoiced by suppliers during the year (2008 3 days')

Directors' report for the year ended 31 December 2009 continued

Derivative financial instruments
Details of the Company's financial instruments can be found in Note 19

The parent undertaking of the Company (BG Energy Holdings Limited) uses certain financial instruments to manage the financial risk on behalf of the Company Further details of these instruments and details of BG Energy Holdings Limited's financial risk management objectives and policies are set out on page 8 of the BG Energy Holdings Limited Annual Report and Financial Statements for the year ended 31 December 2009

Auditors
The Auditors are deemed to be re-appointed under Section 487 of the Companies Act 2006 and accordingly PricewaterhouseCoopers LLP (the "Auditors") remain in office

Statement as to disclosure of information to auditors
As required by Sections 418 and 419 of the Companies Act 2006, each of the Directors has approved this report and confirmed that, so far as he is aware, there is no relevant audit information (being information needed by the Auditors in connection with preparing their audit report) of which the Company's Auditors are unaware, and he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information

Statement of Directors' responsibilities
The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law, the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year

The Directors consider that in preparing the Financial Statements on pages 11 to 35 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and that all applicable accounting standards have been followed and that the Financial Statements have been prepared on the going concern basis The Company has complied with UK disclosure requirements

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enables them to ensure that the Financial Statements comply with the Companies Act 2006

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Directors' report for the year ended 31 December 2009 continued

Statement of Directors' responsibilities continued
The Directors, having prepared the Financial Statements, have requested the Auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report

By Order of the Board

R L Dunn.

R L Dunn
Company Secretary

Date 28 September 2010

Registered Office
100 Thames Valley Park Drive
Reading
Berkshire
RG6 1PT
Registered in England and Wales No 902239

Independent Auditors' report to the member of BG International Limited

We have audited the Financial Statements of BG International Limited for the year ended 31 December 2009 which comprise the Profit and loss account, the Balance sheet, the Statement of total recognised gains and losses and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Financial Statements

Opinion on financial statements
In our opinion the Financial Statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements

Independent Auditors' report to the member of BG International Limited continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the Financial Statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Nicholas Blackwood

Nicholas Blackwood
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date 28 September 2010

Profit and loss account for the year ended 31 December

	Notes	2009 £m	2008 £m
Turnover	3	**1,233**	1,119
Operating costs		**(861)**	(809)
Exploration expenditure		**(204)**	(204)
Depreciation		**(169)**	(107)
Amortisation		**(1)**	-
Profit on disposal of fixed assets	4	**5**	-
Operating profit/(loss)	5	**3**	(1)
Income from fixed asset investments		**1,510**	1,247
Impairment of fixed asset investments	4	**(293)**	-
Net interest payable and similar charges	8	**(44)**	(109)
Profit on ordinary activities before taxation		**1,176**	1,137
Taxation on profit on ordinary activities	9	**(108)**	(115)
Profit for the financial year	22,23	**1,068**	1,022

The results for the year are derived solely from continuing operations

There is no difference between the historical cost profits and losses and the results presented

The notes on pages 13 to 35 form part of these Financial Statements

Statement of total recognised gains and losses for the year ended 31 December

	Notes	2009 £m	2008 £m
Profit for the financial year		**1,062**	1,022
Deficit arising on revaluation of fixed assets	22,23	**(197)**	(139)
Currency translation adjustments	22,23	**39**	35
Actuarial loss under FRS 17	18	**(132)**	(29)
Movement in deferred tax asset under FRS 17		**37**	8
Total recognised gains and losses for the financial year		**809**	897

Balance sheet as at 31 December

	Notes	2009 £m	2008 £m
Fixed assets			
Intangible assets	11	**287**	583
Tangible assets	12	**1,097**	824
Investments	13	**3,459**	3,094
		4,843	4,501
Current assets			
Stocks	14	**44**	65
Debtors amounts falling due within one year	15	**4,904**	4,075
Cash at bank and in hand	16	**29**	24
		4,977	4,164
Creditors: amounts falling due within one year	17	**(6,952)**	(5,374)
Net current liabilities		**(1,975)**	(1,210)
Total assets less current liabilities		**2,868**	3,291
Pension liability	18	**(207)**	(126)
Provisions for other liabilities and charges	20	**(639)**	(545)
Net assets		**2,022**	2,620
Capital and reserves			
Called up share capital	21	**1,688**	1,688
Profit and loss account	22	**(51)**	350
Revaluation reserve	22	**385**	582
Equity shareholder's funds	23	**2,022**	2,620

The notes on pages 13 to 35 form part of these Financial Statements

The Financial Statements on pages 11 to 35 were approved and authorised for issue by the Board of Directors and were signed on its behalf by

S M A Iskander
Director

Date 28 September 2010

Notes to the Financial Statements

1 Ultimate parent undertaking

The immediate parent undertaking is BG Energy Holdings Limited

The ultimate parent undertaking and controlling party is BG Group plc, which is the parent undertaking of the largest group to consolidate these Financial Statements The smallest group into which the Company is consolidated is that of which BG Energy Holdings Limited is the parent undertaking BG Energy Holdings Limited and BG Group plc are both registered in England and Wales Copies of the Group consolidated accounts may be obtained from the Company Secretary, 100 Thames Valley Park Drive, Reading, Berkshire, RG6 1PT

2 Accounting policies

Basis of preparation and accounting principles
These accounts have been prepared on the going concern basis and in accordance with applicable Accounting Standards in the United Kingdom, using historical cost principles except for the investment in BG Karachaganak Limited which has been revalued to its underlying net asset value A summary of the more important accounting policies, which have been applied consistently, is set out below

The accounting policies, where applicable, are materially in accordance with a Statement of Recommended Practice (SORP) issued by the Oil Industry Accounting Committee entitled 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' although there are three areas where the accounting policies differ from the SORP These are shown in the sections on depreciation, impairment and exploration expenditure (see below)

In addition, the SORP recommends the disclosure of oil and gas reserve quantities The oil and gas reserve quantities of the Company are included in the oil and gas reserve quantities disclosed in the Annual Report and Accounts of the Company's parent, BG Group plc The Directors have elected not to publish this information for the Company as the information is disclosed by BG Group plc on a consolidated basis and this disclosure is analysed geographically The consolidated disclosures and the basis on which the information is disclosed can be found on pages 119 and 120 of the Annual Report and Accounts of BG Group plc for the year ended 31 December 2009

Where the Company has entered into joint operating agreements with other companies to participate in exploration, development and production activities, the Company records the expenditure incurred by the operator in respect of the Company's share in each licence group and includes its share of the capital commitments arising from the joint operations

Exemptions
The Company is a wholly owned subsidiary undertaking of BG Group plc and is therefore exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated accounts

The Company has taken advantage of the exemptions available to wholly-owned UK subsidiaries under Financial Reporting Standard (FRS) 1 (Revised 1996) 'Cash Flow Statements', and accordingly has not prepared a cash flow statement, and within FRS 8 'Related Party Disclosures' from disclosure of transactions with other group companies

The Company only has one class of business and is therefore exempt from the segmental reporting requirements of the Companies Act 2006

Notes to the Financial Statements continued

2 Accounting policies continued

Fixed asset investments and foreign currencies
Fixed asset investments are stated at cost less provision for impairment, with the exception of the Company's investment in BG Karachaganak Limited, an operating company, which is designated as a foreign currency asset in accordance with the net investment hedging provisions of SSAP 20 (see below) and is held at the underlying net asset value of the subsidiary The revaluation of BG Karachaganak Limited involves both the adjustment to the year end net asset value and the retranslation of the opening valuation to the year end rate Gains arising from adjustment to closing net asset valuation are credited to the revaluation reserve Losses, to the extent not offset by gains arising in prior periods, are recognised in the profit and loss account Gains and losses, arising on the retranslation of the opening valuation to the year end rate, are recognised directly in the profit and loss reserve

In 2009, a loss of £197 million (2008 £139 million loss) was recognised in the revaluation reserve and a loss of £34 million (2008 £87 million gain) was recognised in the profit and loss reserve, relating to the revaluation of the investment in BG Karachaganak Limited to the underlying net asset value of the subsidiary at the year end rate No gain or loss was recognised in the profit and loss account in the year (2008 £nil)

The investment in BG Karachaganak Limited is financed through debt denominated in the functional currency of the subsidiary, in order to hedge the currency exposure on the net investment In accounting for the currency exchange differences arising on the retranslation of this debt to the year end exchange rate, the Company has applied the net investment hedging provisions of SSAP 20 and recognises the gains and losses, to the extent that they offset gains and losses arising on the retranslation of the investment, directly in the profit and loss reserve

Financial instruments
BG Energy Holdings Limited, the parent company, uses financial derivatives to hedge committed future foreign currency transactions on behalf of the Company

Resulting gains and losses are deferred until the transaction occurs, then passed through the intercompany account between the Company and BG Energy Holdings and matched with the underlying expenditure in the Company

Stocks
Stocks, including stocks of gas, liquefied natural gas (LNG) and oil held for sale in the ordinary course of business, are stated at weighted average historical cost less provision for deterioration and obsolescence or, if lower, net realisable value

Tangible fixed assets
All tangible fixed assets are carried at depreciated historical cost Additions represent extensions to, or significant increases in, the capacity of tangible fixed assets

Interest charges on borrowings used to finance major capital projects are capitalised up to the point of commissioning

Notes to the Financial Statements continued

2 Accounting policies continued

Depreciation
Freehold land is not depreciated Other tangible fixed assets, except exploration and production assets, are depreciated on a straight-line basis at rates sufficient to write off the historical cost of individual assets, over their estimated useful lives The depreciation periods for the principal categories of assets are as follows

Freehold and leasehold buildings	up to 50 years
Mains and services	up to 60 years
Plant and machinery	5 to 25 years
Motor vehicles and office equipment	up to 10 years

Exploration and production assets are depreciated from the commencement of production in the fields concerned, using the unit of production method based on the proved developed reserves of those fields, except that a basis of total proved reserves is used for acquired interests and facilities Changes in these estimates are dealt with prospectively

Asset lives are kept under review and complete asset life reviews are conducted periodically

Impairment of fixed assets
Any impairment of fixed assets is calculated as the difference between the carrying values of cash generating units and their recoverable amount, being the higher of the estimated value in use or fair value less costs to sell at the date the impairment loss is recognised Value in use represents the net present value of expected future cash flows discounted on a pre-tax basis

Revenue recognition
Revenue associated with exploration and production sales (of crude oil and petroleum products including natural gas) is recorded when title passes to the customer Revenue from the production of hydrocarbons in which the Company has an interest with other producers is recognised on the basis of the Company's working interest and the terms of the relevant production sharing contracts (entitlement method) Differences between production sold and the Company's share of production are not significant

Revenue from transportation and distribution activities is recognised in the same period in which the related volumes are delivered to the customer All other revenue is recognised when title passes to the customer

Commodity instruments
The Company uses various commodity based derivative instruments to manage some of the risks arising from fluctuations in commodity prices Such contracts include physical and net settled forwards, futures, swaps and options

Under specified conditions, certain gains and losses attributable to cash-settled derivative contracts designated as hedging certain gas price exposures are deferred and recognised in the profit and loss account when the underlying hedged transactions crystallises All other gains and losses relating to cash-settled commodity derivatives are taken to the profit and loss account on the maturity or termination of the instrument

Gas contracts and related derivative instruments associated with the physical purchase and re-sale of third-party gas are presented on a net basis within operating costs As these activities are incidental in nature to the Company's ordinary activities, this treatment is in conformity with the Companies Act 2006

Notes to the Financial Statements continued

2 Accounting policies continued

Exploration expenditure
The SORP (see 'Basis of preparation and accounting principles') requires depreciation of licence acquisition costs on a straight line basis It also permits capitalisation of all costs incurred as intangible fixed assets The Company accounts for exploration expenditure under the successful efforts method which differs from the SORP as follows

Exploration expenditure, including licence acquisition costs, is capitalised as an intangible fixed asset when incurred and certain expenditure, such as geological and geophysical exploration costs, is expensed A review of each licence or field is carried out, at least annually, to ascertain whether proved reserves have been discovered When proved reserves are determined the relevant expenditure, including licence acquisition costs, is transferred to tangible fixed assets and depreciated on a unit of production basis Expenditure deemed to be unsuccessful is written off to the profit and loss account The Company considers this application of the successful efforts method to be appropriate as it provides comparability with the Company peer group and because it treats licence acquisition costs in a manner which is consistent with the treatment of other exploration assets within intangible fixed assets

Decommissioning costs
Where a legal or constructive obligation has been incurred, provision is made for the net present value of the estimated cost of decommissioning at the end of the producing lives of fields

When this provision gives access to future economic benefits, an asset is recognised and then subsequently depreciated in line with the life of the underlying producing field, otherwise the costs are charged to the profit and loss account The unwinding of the discount on the provision is included in the profit and loss account as a financial item and is included within the net interest charge Any changes to estimated costs or discount rates are dealt with prospectively

Foreign currencies
Transactions in foreign currencies are translated into pounds Sterling at average rates of exchange Foreign currency monetary assets and liabilities are translated into pounds Sterling at the rates of exchange ruling at the balance sheet date Differences arising from changes in exchange rates are taken to the profit and loss account in the year in which they arise

Where the Directors consider that foreign currency branches operate as a separate business, these branches and any related loans in that foreign currency are re-valued into pounds sterling at the rates ruling at the balance sheet date and the net differences arising from translation are taken to reserves

Deferred taxation
Provision is made in full, on an undiscounted basis, for the deferred tax arising on the difference between the accounting treatment and tax treatment for depreciation in respect of accelerated capital allowances and other timing differences Deferred tax assets are recognised to the extent that they are regarded as recoverable Provision for deferred petroleum revenue tax is shown net of allowable corporation tax relief (reflected in the deferred corporation tax balance) and is made in respect of applicable fields based on current forecasts

Leases
Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term

Notes to the Financial Statements continued

2 Accounting policies continued

Pensions
Provision has been made for the obligations under the Company's defined benefit pension schemes in accordance with FRS 17 "Retirement Benefits" Although the schemes are multiemployer schemes, 90% of the employees in the schemes are employed by the Company, and as a result of this the Company recognises the entire FRS 17 liability in its balance sheet Other participating employers account for contributions to the schemes as if they were defined contribution schemes under FRS 17, whilst providing additional disclosure on the schemes as a whole

The amount recognised on the balance sheet in respect of liabilities for defined benefit pension schemes represents the present value of the obligations less the fair value of schemes' assets less any deferred tax relating to the liability

The cost of providing benefits under the schemes is charged to the profit and loss account over the periods benefiting from the employees' services, with the exception of actuarial gains and losses which are recognised in full in the statement of total recognised gains and losses Current and past service costs are reflected in operating profit and financing costs are reflected in finance costs in the period in which they arise

Share-based payments
The cost of providing share-based payments to employees is charged to the income statement over the vesting period of the related share options or share allocations in accordance with FRS 20 "Share-based Payment" The cost is based on the fair value of the options or shares allocated and the number of awards expected to vest The fair value of each option or share is determined using either a Black-Scholes option pricing model or a Monte Carlo projection model, depending on the type of award Market related performance conditions are allowed for using a separate assumption about the number of awards expected to vest, the final charge made reflects the number actually vesting

3 Turnover

Turnover, which excludes value added tax and is stated gross of royalties, represents amounts receivable for sales of hydrocarbons and tariff income as follows

	2009 £m	2008 £m
Gas, condensate and liquefied petroleum gas	**957**	864
Oil	**154**	194
Tariff income	**52**	61
Other	**70**	-
	1,233	1,119

4 Profit on disposal of fixed assets and Impairment of fixed asset investments

During 2009, the Company disposed of its interest in the Amethyst field as part of the asset exchange with BP for total consideration of £12 million The asset had a net book value of £7 million, leading to a profit on disposal of £5 million

During 2009, an impairment charge of £130m was made in respect of the Canada asset The carrying value (net assets excluding intercompany balances) of Canadian assets was £163m prior to the impairment A further impairment charge of £35m was made in the second quarter of 2010 and this has been reflected in the Company's profit and loss account for the year ended 31 December 2009 The Canadian asset was subsequently disposed of for a profit of £8m

Notes to the Financial Statements continued

4 Profit on disposal of fixed assets and Impairment of fixed asset investments continued

During the second quarter of 2010, a decision was taken to discontinue exploration activity in Oman and exit the concession This resulted in an impairment charge of £128m against the asset and this has been reflected in the Company's profit and loss account for the year ended 31 December 2009

5 Operating profit/(loss)

Operating profit/(loss) is stated after charging for

	2009 £m	2008 £m
Amounts written off fixed assets		
Depreciation	**169**	107
Amortisation	**1**	-
Unsuccessful exploration expenditure written off	**114**	104
(Profit)/loss on disposal of fixed assets	**(5)**	1
	279	212
Operating leases		
Other	**16**	14
	16	14
Employee costs are included as follows[a]		
Wages and salaries	**196**	180
Social security costs	**17**	16
Pension costs [b]	**51**	49
Share based payments (see note 6)	**44**	25
Other (including incentive schemes)	**35**	54
	343	324

[a] All employee costs are shown gross of recharges to other companies within BG Group

[b] Pension costs include finance income/costs relating to pensions as detailed in notes 7 and 17

Operating profit/(loss) is also stated after charging total auditors' remuneration for the England and Wales registered subsidiaries of BG Group plc of £209,000 (2008 £203,400) Fees have not been recharged to the group companies The Company's share of auditors' remuneration for the year was £12,000 (2008 £11,000)

The average number of employees during the year was	2009 Number	2008 Number
UK	**1,245**	1,113
Non-UK	**455**	459
	1,700	1,572

Notes to the Financial Statements continued

6 Share-based payments

The cost recognised in respect of share-based payments for 2009 was £44m (2008 £25m), of which £34m (2008 £26m) related to equity-settled share-based payment transactions and £10m (2008 £1m credit) related to cash-settled share-based payments

BG Group plc's Group Share Award Scheme
Details of BG Group plc's Group Share Awards under the Group's Long Term Incentive Plan (LTIP) are given in BG Group plc's Annual Report and Accounts 2009 In 2009, awards of 2 5m ordinary shares (2008 1 9m ordinary shares) were made 1 4m of these awards were in the form of nil-cost options (2008 nil)

The costs in respect of these awards are charged to the income statement over the vesting period, based upon the fair value of BG Group plc's shares at the award date In 2009, the amount recognised by the Company in respect of the Group Share Awards was £9m (2008 £2m) Dividend equivalents accrue on the awards during the vesting period Accordingly, the fair value of the shares allocated is based on the market value of BG Group plc's shares on the award date, which was £10 19 in 2009 (2008 £11 19)

As at 31 December 2009, total awards of 4 2m shares (2008 1 9m) were outstanding, which included nil-cost options over 1 4m (2008 nil) Nil-cost options can be exercised between three and ten years from the grant date

BG Group plc's Performance Share Award Scheme
Details of BG Group plc's Performance Share Awards under the Group's LTIP are given in BG Group plc's Annual Report and Accounts 2009 Details of the awards to Frank Chapman, Ashley Almanza and Martin Houston are given in BG Group plc's Annual Report and Accounts 2009 In 2009, awards of 4 9m ordinary shares (2008 3 4m ordinary shares) were made In 2009, 3 7m of these awards were in the form of nil-cost options (2008 nil)

The costs in respect of these awards are charged to the income statement over the vesting period, based upon the fair value of BG Group plc's shares at the award date, adjusted for the probability of market-related performance conditions being achieved In 2009, the amount recognised by the Company in respect of Performance Share Awards was £4m (2008 £1m)

The fair value of shares awarded during the year in respect of BG Group plc's Performance Share Awards is estimated using a Monte Carlo projection model with the following assumptions. weighted average BG Group plc share price of £10 19 (2008 £11 19), exercise price of £nil (2008 £nil), a risk-free rate of 1 9% (2008 3 6%) and a vesting period of three years (2008 three years) The model also contains assumptions for both BG Group plc and each member of the industry peer group (as set out in BG Group plc's Annual Report and Accounts 2009, page 53) in respect of volatility, average share price growth and share price correlation Dividend equivalents accrue on the award during the vesting period The fair value reflects the probability of market performance conditions being achieved The fair value of shares allocated during the year was £4 79 per share (2008 £5 67 per share) The assumptions used in estimating the fair value of shares for the Performance Share Awards are based on US data because most of the companies selected as industry peers are US-based

Notes to the Financial Statements continued

6 Share-based payments continued

BG Group plc's Performance Share Award Scheme continued
Expected volatility was determined by calculating the historical volatility of the share price over the previous three year period Share price correlation was determined by calculating the historical correlation of the share price over the previous three year period Average share price growth was determined from historical growth over the previous year

As at 31 December 2009, total awards of 7 4m shares (2008 3 2m) were outstanding, which included nil-cost options over 3 5m (2008 nil) Nil-cost options can be exercised between three and ten years from the grant date

BG Group plc's Deferred Bonus Awards

Deferred Bonus awards are made under BG Group plc's Deferred Bonus Plan which operates in conjunction with BG Group plc's Annual Incentive Scheme (AIS) and is described in BG Group plc's Annual Report and Accounts 2009 In 2009, awards of 0 2m ordinary shares were made (2008 nil) The charge to the income statement in respect of these awards was £1m (2008. £nil) The fair value of the shares awarded is based on the market value of BG Group plc's shares at the award date, which was £9 98

BG Group plc's Company Share Option Scheme
Details of BG Group plc's Company Share Option Scheme (CSOS) are given in BG Group plc's Annual Report and Accounts 2009 Details of share options held by Frank Chapman, Ashley Almanza and Martin Houston under the CSOS are given in BG Group plc's Annual Report and Accounts 2009 No grants have been made since 2007

The costs of this scheme are charged to the income statement over the vesting period, based upon the fair value of the share option at the grant date and the likelihood of allocations vesting under the scheme In 2009, the amount recognised by the Company in respect of the CSOS was £12m (2008 £16m)

BG Group plc's Long Term Incentive Scheme
Details of BG Group plc's Long Term Incentive Scheme (LTIS) are given in BG Group plc's Annual Report and Accounts 2009 Details of notional allocations to Frank Chapman, Ashley Almanza and Martin Houston under the LTIS are given in BG Group plc's Annual Report and Accounts 2009 No allocations have been made since 2007

The costs of this scheme are charged to the income statement over the vesting period, based upon the fair value of the shares at the award date, adjusted for the probability of market-related performance conditions being achieved In 2009, the amount recognised by the Company in respect of the LTIS was £3m (2008 £6m) As at 31 December 2009, notional allocations of 2 8m ordinary shares (2008 5 9m ordinary shares) were outstanding under BG Group plc's LTIS

Notes to the Financial Statements continued

6 Share-based payments continued

BG Group plc's Sharesave Plan
Details of BG Group plc's Sharesave Plan (the Sharesave Plan) are given in BG Group plc's Annual Report and Accounts 2009 Details of share options held by Frank Chapman, Ashley Almanza and Martin Houston are given in BG Group plc's Annual Report and Accounts 2009 In 2009, grants of 0 5m (2008 0 4m) share options were made under the Sharesave Plan

The costs of this plan are charged to the profit and loss account over the vesting period, based upon the fair value of the share option at the grant date and the likelihood of allocations vesting under the scheme In 2009, the amount recognised by the Company in respect of the Sharesave Plan was £1 0m (2008 £1 0m)

The fair value of share options granted during the year in respect of the Sharesave Plan is estimated using a Black-Scholes option pricing model with the following assumptions BG Group plc share price of £11 21 (2008 £8 00), exercise price of £8 63 (2008 £7 66), dividend yield of 1 0% (2008 1 0%), volatility of 43% (2008 38%), a risk-free rate of 1 64% (2008 2 23%) and an expected life of 3 years (2008 3 years) The fair value of share options granted during the year was £4 35 per share (2008 £2 24 per share)

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three year period The expected life used in the model is based on the contractual terms in the Sharesave Plan

BG Group plc's Share Incentive Plan
Details of BG Group plc's Share Incentive Plan (SIP) are given in BG Group plc's Annual Report and Accounts 2009 In 2009, awards of 0 4m ordinary shares were made as Flex Share Awards in conjunction with BG Group plc's UK Flexible Benefits Plan

Under FRS 20, the charge to the profit and loss account in respect of the award is based on the market value of BG Group plc's shares at the grant date The fair value of the shares awarded during the year was £10 66 per share In 2009, the amount recognised by the Company in respect of the SIP was £4 0m (2008 £nil)

Cash-settled share-based payments
Cash-settled share-based payments arise when the Company incurs a liability to transfer cash amounts that are based on the price (or value) of the ultimate Parent Company's shares

A charge of £3m has been made in respect of cash-settled CSOS awards (2008 £1m), the terms of which are the same as the equity-settled CSOS awards and a charge of £7m (2008 £2m credit) has been made in respect of social security costs on employee share option and share plans The charge for cash-settled CSOS awards and social security costs on employee share option and share plans covers awards made before and after 7 November 2002

Notes to the Financial Statements continued

6 Share-based payments continued

Cash-settled share-based payments continued
During the vesting period, the costs of the cash-settled CSOS awards are charged to the profit and loss account based on the fair value of the share option at the balance sheet date and the likelihood of allocations vesting under the scheme The fair value of the non-vested cash-settled options at the balance sheet date has been estimated using a Black-Scholes option pricing model with the following assumptions BG Group plc share price of £11 22 (2008 £9 57), weighted average exercise price of £7 92 (2008 £7 87), dividend yield of 1 0% (2008 1 0%), volatility of 37 00% (2008 34 10%), a weighted average risk-free rate of 1 67% (2008 2 26%) and a weighted average expected life of three years (2008 four years) The average fair value of non-vested cash-settled CSOS awards at the balance sheet date was £4 25 (2008 £3 23) For awards that had vested, but not been exercised at the balance sheet date, the fair value was the intrinsic value of the award at the balance sheet date

The charge to the profit and loss account in respect of social security costs has been calculated based on the fair value of the awards at the balance sheet date multiplied by the current employer's social security rate The fair value of the awards that had not vested at the balance sheet date has been estimated using a Black-Scholes option pricing model

To determine the social security costs in respect of the CSOS awards, the following assumptions were used BG Group plc share price of £11 22 (2008 £9 57), weighted average exercise price of £7 92 (2008 £7 46), dividend yield of 1 0% (2008 1 0%), volatility of 37 00% (2008 34 10%), a weighted average risk-free rate of 1 67% (2008 2 04%) and a weighted average expected life of three years (2008 three years) The average fair value of non-vested CSOS awards at the balance sheet date was £4 25 (2008 £3 32) For awards that had vested, but not been exercised at the balance sheet date, the fair value was the intrinsic value of the award at the balance sheet date

To determine the social security costs in respect of the LTIS awards the following assumptions were used BG Group plc share price of £11 22 (2008 £9 57), volatility of 43 00% (2008 40 60%), a weighted average risk-free rate of 0 65% (2008 0 85%), and a weighted average expected life of one year (2008 one year) The weighted average fair value of LTIS awards at the balance sheet date was £9 66 (2008 £8 58)

To determine the social security costs in respect of the Performance Share Awards the following assumptions were used BG Group plc share price of £11 22 (2008 £9 57), volatility of 43 00% (2008 40 60%), a weighted average risk-free rate of 1 45% (2008 1 73%) and a weighted average expected life of two years (2008 three years) The weighted average fair value of Performance Share Awards at the balance sheet date was £5 31 (2008 £4 72) For the Group Share Awards, the fair value of the award was based on the market price of BG Group plc shares at the balance sheet date

Notes to the Financial Statements continued

6 Share-based payments continued

Analysis of share options in BG Group as at 31 December 2009

	Date of grant	Number of shares m	Weighted average option price £	Normal exercisable date	Weighted average remaining contractual life
Sharesave Scheme and Sharesave Plan options					
	2004	0 13	2 74	2009	0yr 4mths
	2005	0 14	3 95	2010	1yr 4mths
	2006	0 43	5 82	2009/11	1yr 11mths
	2007	0 63	7 16	2011	1yr 7mths
	2008	0 35	7 66	2012	2yrs 7mths
	2009	**0.53**	**8.63**	**2013**	**3yrs 6mths**
Company Share Option Scheme options[a]					
	2000	0 13	2 685	2010	0yr 10mths
	2001	0 31	2 5634	2011	1yrs 10mths
	2002	0 75	2 5175	2012	2yrs 8mths
	2003	1 93	2 705	2013	3yrs 8mths
	2004	2 90	3 4733	2014	4yrs 8mths
	2005	5 94	4 9942	2015	5yrs 8mths
	2006	0 03	6 26	2016	6yrs 1mth
	2006	7 91	6 8983	2016	6yrs 8mths
	2007	10 47	7 92	2017	7yrs 8mths

(a) For CSOS, the normal exercisable date given above is the last date that the options are exercisable This is the tenth anniversary of the grant date Options can be exercised subject to performance conditions, from the third anniversary of the grant date

The table includes share options granted to three Directors who are not employed by the Company, but who have options under the Company Share Option Scheme and the Sharesave Scheme and Sharesave Plan

Weighted average exercise price of share options in BG Group

	Sharesave Scheme and Sharesave Plan options (£)	CSOS (£)
Outstanding as at 1 January 2009	5 76	5 76
Granted	8 63	-
Exercised	3 86	4 76
Lapsed	6 11	7 51
Outstanding as at 31 December 2009	**6.86**	**6.11**
Exercisable as at 31 December 2009	**4.03**	**5.16**

The figures include the weighted average exercise price of share options granted to three Directors who are not employed by the Company but who have options under the Company Share Option Scheme and the Sharesave Scheme and Sharesave Plan

Notes to the Financial Statements continued

6 Share-based payments continued

Summary of movements in share options in BG Group

	Sharesave Scheme and Sharesave Plan options m	CSOS m
2008		
Outstanding as at 1 January 2008	2 5	55 1
Granted	0 4	-
Exercised	(0 5)	(6 5)
Forfeited	(0 1)	(3 6)
Outstanding as at 31 December 2008	2 3	45 0
Exercisable as at 31 December 2008	0 1	21 6
Option price range as at 31 December 2008(£)	2 19 – 7 66	2 52 – 7 92
Option price range for exercised options (£)	2 19 – 7 16	2 52 – 7 92
Weighted average share price at the date of exercise for options exercised in the year	10 35	10 76
2009		
Outstanding as at 1 January 2009	2 3	45 0
Granted	0 5	-
Exercised	(0 5)	(13 2)
Forfeited	(0 1)	(1 4)
Outstanding as at 31 December 2009	**2.2**	**30.4**
Exercisable as at 31 December 2009	**0.2**	**19.9**
Option price range as at 31 December 2009(£)	**2.74 – 8.63**	**2.52 – 7.92**
Option price range for exercised options (£)	**2.19 – 7.16**	**2.52 – 7.92**
Weighted average share price at the date of exercise for options exercised in the year	**10.80**	**10.89**

The table also includes movements in share options granted to three Directors who are not employed by the Company but who have options under the Company Share Option Scheme and the Sharesave Scheme and Sharesave Plan

7 Directors' emoluments

	2009 £000	2008 £000
Emoluments	**2,827**	3,885
Pension scheme contributions	**157**	96
Benefits in kind	**49**	553
Share-based payments	**1,192**	3,092
Termination payments and payments in lieu of notice	**2,500**	-
	6,725	7,626

The above figures exclude amounts paid to Frank Chapman, Ashley Almanza, Martin Houston and Keith Hubber whose emoluments are payable by BG Group plc Details of the emoluments paid to them during the year are set out in the BG Group Annual Report and Accounts 2009

Notes to the Financial Statements continued

8 Net interest payable and similar charges

	2009 £m	2008 £m
Interest payable		
on amounts owed to group undertakings	**(53)**	(128)
other	**(4)**	(2)
Foreign exchange (loss)/gain	**(4)**	7
Interest receivable	**35**	25
	(26)	(98)
Unwinding of discount on pension liability	**(5)**	3
Unwinding of discount on provisions	**(13)**	(14)
	(44)	(109)

Foreign exchange losses or gains relating to financing arrangements are included in net interest shown above

9 Taxation

The charge for taxation comprises

	2009 £m	2008 £m
Current Tax		
Corporation tax credit at 28% and 50% (2008 28 5% and 50%)	**(110)**	(46)
(Over)/under provision in respect of prior periods	**(4)**	64
Petroleum revenue tax	**20**	27
Foreign tax	**15**	3
Under provision in respect of foreign tax of prior periods	**112**	33
Total current tax charge	**33**	81
Deferred Tax		
Deferred corporation tax charge at 28% and 50% (2008 28 5% and 50%)	**64**	79
Deferred tax under/(over) provision in respect of previous periods	**4**	(61)
Pension adjustment (FRS 17)	**5**	(2)
Deferred petroleum revenue tax	**2**	18
Total deferred tax charge	**75**	34
Total tax charge	**108**	115

Notes to the Financial Statements continued

9 **Taxation** continued

Factors affecting the current tax charge for the year:

	2009 £m	2008 £m
Profit on ordinary activities before tax	**1,176**	1,137
Tax on profit on ordinary activities at 28% and 50% (2008 28 5% and 50%)	**384**	399
Effects of:		
Expenses not deductible for tax purposes	**5**	20
Pension Adjustment (FRS 17)	**(5)**	2
Capital allowances in excess of depreciation and impairment	**(71)**	(88)
Non-qualifying depreciation	**3**	-
Non-taxable profit on disposal	**(3)**	-
Other timing differences	**7**	2
Transfer pricing adjustment	**15**	-
Effect of change in tax rate	**-**	(1)
Petroleum revenue tax net of corporation tax	**7**	13
Adjustment to tax charge in respect of previous periods	**108**	97
Unutilised foreign tax	**-**	3
Foreign tax	**15**	-
Deduction for share based payments	**(10)**	(11)
Capital gain	**1**	-
Non taxable dividend income	**(423)**	(355)
Current year tax (credit)/charge	**33**	81

Effective 1 April 2011, the applicable rate of UK corporation tax is 27% This change does not affect UK North Sea profits

10 **Dividends**

An interim dividend of £1,510m (£0 89 per share) was declared in December 2009 Dividends paid in 2008 were £947m (2008 £0 56 per share) The Directors do not propose the payment of a final dividend in respect of the year ended 31 December 2009 (2008 £nil)

Notes to the Financial Statements continued

11 Intangible assets

	Unproved properties £m
Cost	
At 1 January 2009	583
Additions	232
Transfers to tangible assets	(51)
Disposals	(187)
Unsuccessful exploration expenditure written off	(114)
At 31 December 2009	**463**
Accumulated amortisation	
Provision for the year	1
Impairments	175
At 31 December 2009	**176**
Net book value	
At 31 December 2009	**287**
At 31 December 2008	583

12 Tangible assets

	Proved oil and gas properties	Land, buildings, office equipment and motor vehicles	Total
Cost	**£m**	**£m**	**£m**
At 1 January 2009	1,901	283	2,184
Additions	459	191	650
Disposals and transfers	(196)	(25)	(221)
Transfers from Intangible Assets	51	-	51
At 31 December 2009	**2,215**	**449**	**2,664**
Accumulated depreciation			
At 1 January 2009	1,285	75	1,360
Provision for the year	109	60	169
Impairments	108	3	111
Disposals and transfers	(71)	(2)	(73)
At 31 December 2009	**1,431**	**136**	**1,567**
Net book value			
At 31 December 2009	**784**	**313**	**1,097**
At 31 December 2008	616	208	824

Notes to the Financial Statements continued

13 Investments

	Shares in subsidiary undertakings £m	Shares in associate undertakings £m	Total £m
Cost and net book value			
As at 1 January 2009	2,957	137	3,094
Investments	603	4	607
Revaluations	(197)	-	(197)
Currency translation adjustment	(35)	(10)	(45)
At 31 December 2009	**3,328**	**131**	**3,459**

The Company's principal subsidiary undertakings as at 31 December 2009 comprise

Name	Country of Incorporation	Activity	Direct interest in ordinary shares
Alie Investments Limited	England	Finance company	100%
BG Karachaganak Limited	England	Exploration and Production	100%
BG International (CNS) Limited	England	Exploration and Production	100%
BG International (NSW) Limited	England	Exploration and Production	100%
BG Delta Limited	England	Exploration and Production	100%
BG Trinidad 5(A) Limited	England	Exploration and Production	100%
BG OKLNG Limited	England	Non-trading	100%

A full list of subsidiary undertakings, joint ventures and associated undertakings will be included in the next annual return filed with the Registrar of Companies

14 Stocks

	2009 £m	2008 £m
Gas stocks	**18**	33
Raw materials and consumables	**26**	32
	44	65

15 Debtors: amounts falling due within one year

	2009 £m	2008 £m
Trade debtors	**282**	999
Amounts owed by group undertakings	**3,944**	2,552
Amounts owed by group undertakings in respect of taxation	**558**	426
Other debtors	**71**	55
Prepayments and accrued income	**49**	43
	4,904	4,075

Amounts owed by group undertakings are unsecured, bear interest at LIBOR where applicable and have no fixed date of repayment

Notes to the Financial Statements continued

16 Cash at bank and in hand

At 31 December 2009, cash at bank and in hand included £7 2m of cash deposits held in a restricted escrow account on behalf of joint venture operations (2008 £6 5m)

17 Creditors: amounts falling due within one year

	2009 £m	2008 £m
Trade creditors	**148**	52
Amounts owed to group undertakings	**6,156**	4,118
Other creditors	**150**	15
Accruals and deferred income	**383**	1,175
Amounts payable in respect of taxation	**115**	14
	6,952	5,374

Amounts owed to group undertakings are unsecured, bear interest at LIBOR plus 25 basis points where applicable and are repayable on demand

18 Pension liability

The majority of the Company's employees participate in the BG Pension Scheme (the Scheme) The Scheme is of the defined benefit type It is a registered pension scheme established under trust The Trustee is BG Group Pension Trustees Limited The Scheme is funded to cover future pension liabilities in respect of service up to the balance sheet date It is subject to an independent valuation at least every three years, on the basis of which the independent qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by the employees and proceeds from the Scheme's assets, are expected to be sufficient to fund the benefits payable under the Scheme

Participating employers' contributions are certified by the Scheme's independent qualified actuary For the year ended 31 December 2009, the employer's contribution rate in respect of most Scheme members was effectively 26 9% of pensionable pay up to 31 July 2009 (including Scheme expenses) and 35 2% of pensionable pay thereafter (excluding Scheme expenses which are now met directly by the Company) In addition, 3% of pensionable pay was contributed by most members either directly or by their employer via a salary sacrifice arrangement

The BG Supplementary Benefits Scheme is available to provide benefits in excess of the 'lifetime allowance' This scheme is an unfunded, unregistered arrangement

With effect from 2 April 2007, new UK employees have been offered membership of a defined contribution stakeholder pension plan, the BG Group Retirement Benefits Plan (the Plan) Life assurance and income protection benefits are also provided under separate plans, these benefits are fully insured Members may choose the rate at which they contribute to the Plan, either directly or via salary sacrifice, and the employer's contribution is determined by the rate that the member selects A wide range of funds is available from which members may choose how the contribution will be invested

The Company participates in these multi-employer schemes but is unable to identify its share of the underlying assets and liabilities in these schemes on a consistent and reasonable basis Approximately 90% of the employees in these schemes are employed by BG International Limited, and because this means that BG International will have to pay the substantial portion of any deficit in the Scheme, the Company recognises the entire pension liability determined under

Notes to the Financial Statements continued

18 Pension liability continued

FRS 17 in its balance sheet Other participating employers account for contributions to the schemes as if they were defined contribution schemes under FRS 17, whilst providing additional disclosure on the schemes as a whole

The following information in respect of the Scheme and the BG Supplementary Benefits Scheme has been provided in accordance with FRS 17
A full independent actuarial valuation of the Scheme was carried out as at 31 March 2008 The next such valuation will be undertaken as at 31 March 2011 A valuation of the schemes' assets and expected liabilities as at 31 December 2009 was carried out by independent actuaries in accordance with the requirements of FRS 17 based on the following assumptions

	2009	**2008**
	%	**%**
Rate of price inflation and benefit increases[(a)]	3 9	3 3
Future increases in earnings	5 9	5 3
Discount rate	5 7	6 3

(a) Rate of pension increase in excess of any Guaranteed Minimum Pension element

In determining the defined benefit obligation as at 31 December 2009 for the BG plans, mortality assumptions are based on the '00' mortality series issued by the Institute and Faculty of Actuaries, appropriate to the member's year of birth, with an allowance for projected longevity improvements in line with the CMI Bureau's medium cohort tables, subject to a minimum rate of improvement on the projected mortality rates of 1% per annum Based on these assumptions, the life expectancies of pensioners on the measurement date and also of pensioners in ten years time are as follows

	Life expectancy of pensioners	
	31 Dec 2009	**31 Dec 2019**
Male aged 60	**27.5**	**28.6**
Male aged 65	**22.6**	**23.6**
Female aged 60	**30.1**	**31.0**
Female aged 65	**25.0**	**26.0**

As at 31 December 2009, the value of the scheme's assets and expected rates of return, together with the liabilities in the schemes, were as follows

		2009		2008
	Expected rate of return (a)	**Value**	Expected rate of return (a)	Value
	%	**£m**	%	£m
Equities	**8.1**	**493**	8 2	295
Absolute return strategies	**8.1**	**66**	8 2	73
Index-linked gilts	**4.6**	**30**	4 3	21
Corporate bonds	**5.7**	**70**	6 3	48
Cash	**4.6**	**4**	4 1	66
Total market value of assets		**663**		503
Present value of liabilities		**(951)**		(676)
Deficit in schemes		**(288)**		(173)
Deferred tax asset at 28% (2008 28%)		**81**		47
Net pension liability under FRS 17		**(207)**		(126)

(a) Long-term expected rate of return

Notes to the Financial Statements continued

18 Pension liability continued

The expected rate of return on assets has been determined following advice from the funded plans' independent actuary and is based on the expected return on each asset class together with consideration of the long-term asset strategy A real return (relative to price inflation) of 4 0% (a premium of 3 3% over the yield on index-linked gilts) is expected on equities and absolute return strategies The overall expected rate of return as at 31 December 2009 was 7 7%

The actual return on the plans' assets was £104m (2008 £122m loss)

The following amounts have been recognised in the profit and loss account and statement of total recognised gains and losses in the year to 31 December 2009

	2009	2008
Profit and loss account	**£m**	£m
Operating profit		
Current service cost	**41**	49
Loss on curtailment	**3**	3
Costs in respect of defined contribution scheme	**7**	3
Total charge to operating profit	**51**	55
Net interest		
Expected return on the schemes' assets	**(37)**	(44)
Interest on the schemes' liabilities	**42**	41
Net charge to interest (see note 8)	**5**	(3)

	2009	2008
	£m	£m
Statement of total recognised gains and losses		
Actual return less expected return on the schemes' assets	**(67)**	166
Experience (gains)/losses arising on the schemes' liabilities	**(7)**	3
Changes in assumptions underlying the present value of the schemes' liabilities	**206**	(140)
Actuarial loss recognised in the statement of total recognised gains and losses	**132**	29

The cumulative amount of actuarial losses recognised in the statement of total recognised gains and losses is £161m (2008· £29m)

	2009	2008
	£m	£m
Reconciliation of plan liabilities		
Value of plan liabilities as at 1 January	**(676)**	(726)
Movement in year		
Current service cost	**(41)**	(49)
Interest cost	**(42)**	(41)
Employee contributions	**(2)**	(4)
Curtailment costs	**(3)**	(3)
Benefit payments	**12**	10
Actuarial (loss)/gain	**(199)**	137
Value of plan liabilities as at 31 December[a]	**(951)**	(676)

[a] Of plan liabilities, £37m (2008 £27m) is unfunded

Notes to the Financial Statements continued

18 **Pension liability** continued	**2009** **£m**	2008 £m
Reconciliation of plan assets		
Value of plan assets as at 1 January	**503**	589
Movement in year		
Expected return on plan's assets	**37**	44
Company contributions	**66**	42
Employee contributions	**2**	4
Benefit payments	**(12)**	(10)
Actuarial gain/(loss)	**67**	(166)
Value of plan assets as at 31 December	**663**	503

The Scheme was closed to new members on 2 April 2007 Under the projected unit method adopted, the expectation is that the current service cost will increase in future years as the members of the Scheme approach retirement age

Aggregate contributions for the year ended 31 December 2010 to the BG Pension Scheme are expected to be £71m (2008 £30m)

Summary for current and previous four years

	2009 **£m**	2008 £m	2007 £m	2006 £m	2005 £m
Defined benefit obligation	**(951)**	(676)	(726)	(668)	(590)
Plan assets	**663**	503	589	480	399
Deficit	**(288)**	(173)	(137)	(188)	(191)
Experience adjustments on plan assets	**67**	(166)	18	(18)	(50)
Experience adjustments on plan liabilities	**7**	(3)	(9)	(4)	(3)

19 Fair value of financial instruments

Within the ordinary course of business the Company routinely enters into sale and purchase transactions for commodities The majority of these transactions take the form of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of the commodity in accordance with the Company's expected sale, purchase or usage requirements

Certain long-term gas sales contracts in the UK are classified as derivative instruments Whilst the activity surrounding these contracts involves the physical delivery of gas, there are terms within the contract that constitute written options These contracts also include pricing terms which are based on a variety of commodities and indices, including oil, electricity and the Retail Prices Index (RPI) In addition, the Company enters into short-term market traded contracts for the purchase and subsequent resale of third-party commodities, these contracts are also classified as derivative instruments

The Company also uses various commodity based derivative instruments to manage some of the risks arising from fluctuations in commodity prices Such contracts include physical and cash-settled forwards, futures, swaps and options

Notes to the Financial Statements continued

19 Fair value of financial instruments continued

The Company does not recognise unrealised fair value movements in respect of derivative financial instruments The fair value of physical and cash settled commodity contracts classified as derivative instruments are disclosed below

	2009		2008	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Long-term UK gas contracts	-	(189)	-	(242)
Other commodity derivatives	-	(7)	-	(28)
	-	(196)	-	(270)

20 Provisions for liabilities and charges

	Deferred taxation	Decomm-issioning costs	Onerous contracts	Other	Total
	£m	£m	£m	£m	£m
At 1 January 2009	252	138	142	13	545
Increase in provision	-	42	-	-	42
Release of provision	-	-	(16)	(1)	(17)
Unwinding of discount	-	6	7	-	13
Deferred tax charge	70	-	-	-	70
Intercompany disposal	(14)	-	-	-	(14)
At 31 December 2009	**308**	**186**	**133**	**12**	**639**

The deferred tax provision above excludes a deferred tax asset of £81m (2008 £47m) arising on the pension liability (see note 18)

The deferred taxation provision comprises

	2009 £m	2008 £m
Accelerated capital allowances	**373**	337
Provision for liabilities allowable for tax in future years	**(107)**	(61)
Unutilised tax losses	-	(65)
Deferred petroleum revenue tax net of corporation tax relief	**42**	41
	308	252

The Company has unrecognised deductible temporary differences of £407m (2008 £127m) and unrecognised tax losses of £239m (2008 £251m) to carry forward against future taxable income In addition, the Company has unrecognised capital losses of £7m (2008 £7m) which will be recoverable if the Company realises a taxable capital gain

Notes to the Financial Statements continued

20 Provisions for liabilities and charges continued

Decommissioning costs
The estimated cost of decommissioning at the end of the producing lives of fields is based on engineering estimates and reports from independent experts Provision is made for the estimated cost of decommissioning at the balance sheet date The payment dates of total expected future decommissioning costs are uncertain, but are currently anticipated to be between 2011 and 2041

Other
These relate primarily to the estimated liability on long-term rig contracts, redundancy provisions, production bonuses and provisions related to disposals

21 Called up share capital

	2009 £m	2008 £m
Allotted and fully paid:		
1,688,110,000 ordinary shares of £1 each	**1,688**	1,688

22 Reserves

	Revaluation reserve £m	Profit and loss account £m
As at 1 January 2009	582	350
Revaluation of fixed asset investments	(197)	-
Transfer from profit and loss account	-	1,068
Actuarial loss net of deferred tax movement	-	(95)
Currency translation adjustments	-	39
Adjustment for share schemes	-	97
Dividends paid	-	(1,510)
As at 31 December 2009	**385**	**(51)**

Included in currency translation adjustments are amounts relating to the revaluation of BG Karachaganak Limited (2009 £34m loss, 2008 £87m gain), partially off-set by the revaluation of the loan to finance the investment in BG Karachaganak Limited (2009 £12m gain, 2008 £31m loss) and the revaluation of the Chile branch (2009 £61m gain, 2008 £21m loss)

23 Reconciliation of movements in shareholder's funds

	2009 £m	2008 £m
As at 1 January	**2,620**	2,636
Revaluation of fixed asset investments	**(197)**	(139)
Transfer from profit and loss account	**1,068**	1,022
Actuarial loss net of deferred tax movement	**(95)**	(21)
Currency translation adjustments	**39**	35
Adjustment for share schemes	**97**	34
Dividends paid	**(1,510)**	(947)
As at 31 December	**2,022**	2,620

Notes to the Financial Statements continued

24 Capital commitments and contingencies

(a) Capital expenditure	2009	2008
	£m	£m
In respect of contracts placed	298	365

(b) Contingent liabilities

Future well costs
It is a condition of the licences received by the consortia, in which the Company is a participant, that a well or wells should be drilled in each licence area during the period for which the licence is issued The Company's share of the estimated future costs of drilling such wells amounted to £44m at 31 December 2009 (2008 £46m)

25 Commitments under operating leases

As at 31 December the Company was committed to making the following payments under operating leases during the following 12 months

	2009	2008
	£m	£m
Lease commitments expiring	Land and Buildings	Land and buildings
Between two and five years	7	-
After five years	3	9
	10	9