BG International Limited

Annual Report and Financial Statements

For the year ended 31 December 2007

Company Registration Number: 902239

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Directors' report for the year ended 31 December 2007

The Directors present their report and the audited Financial Statements for the year ended 31 December 2007

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 1985, 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 the BG Group The Company, its subsidiaries, subsidiary undertakings and share of jointly controlled entities and associates participate in gas activities across the whole range of gas operations, from exploration to the final consumer

As shown in the Company's profit and loss account on page 12, turnover of the Company decreased by 15% during the year to £915 million (2006 £1,072 million) Operating profit decreased by 62% to £105 million (2006 £275 million). Profit on ordinary activities before tax amounted to £386 million (2006 £880 million)

The balance sheet on page 13 shows that the Company's financial position at the year end is, in net assets terms, stronger than the prior year end due to the retained profit and impact of the stronger US dollar on US denominated investments Details of amounts owed to group undertakings are shown in note 17 to the Financial Statements on page 29

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

United Kingdom and Continental Shelf ("UKCS")

Within the UK, the principal exploration and production operating assets owned by the Company include the Everest and Lomond fields, the Joanne and Judy ("J-Block") and Jade fields, the Amethyst fields and the Central Area Transmission System ("CATS pipeline")

The Company holds 59 32% and 61 11% directly and indirectly in the Everest and Lomond fields via its subsidiary undertakings BG International (CNS) Limited and BG Norge Limited First production of these gas fields took place in May 1993 All gas produced by Everest and Lomond is exported to the shore via the CATS pipeline Production from the Everest and Lomond fields in 2007 was 7 9 million barrels of oil equivalent (mmboe) (2006 9 1 mmboe)

The Company holds 30 5% in J-Block which was brought onstream in July 1997 The Company holds 35% 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 19 wells and Jade produces from 6 wells Production from J-Block and Jade fields in 2007 was 10 7 mmboe (2006 13 5 mmboe)

In September 2006, BG Group announced a significant discovery of a gas condensate field in the Central North Sea The Jasmine discovery straddles blocks 30/6 and 30/7a, in which the Company holds 30 5% Another recent North Sea discovery, towards the end of 2005, was Jackdaw, close to the Jade field which straddles block 30/2a (Company stake increased in December 2007 from 34 4% to 43 1%) and 30/2c (Company 36%) BG Group and partners announced a successful well in the Jasmine North Terrace in February 2008 and an appraisal well on Jackdaw is expected to complete drilling in 2008

Directors' report for the year ended 31 December 2007 continued

Business Review and Principal Activities continued
The Company holds a 15 51% interest in the BP-operated Amethyst field located in the southern North Sea Amethyst East started production in October 1990 and Amethyst West in October 1991 Production from Amethyst in 2007 was 0 9 mmboe (2006 0 8 mmboe)

The Company has a 51 18% interest in the CATS pipeline and terminal that transports gas to processing facilities in Teeside from the Armada, Seymour, Everest and Lomond, Andrew, J-Block/Jade, Erskine, Banff fields, and the fields in the Eastern Trough Area Project (ETAP) The CATS owners have recently contracted additional business from the Maria and Montrose Arbroath fields Onshore, the CATS Teeside terminal consists of two processing trains The processing capacity of the CATS Teeside terminal is around 1 200 mmscfd

Damage to the CATS pipeline in July 2007 caused by a third-party vessel resulted in production from the Everest, Lomond, Jade and J-Block fields being shut down for around two months The pipeline was returned to full service in September 2007

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

<u>Kazakhstan</u>
The Company, through its wholly owned subsidiary undertaking BG Karachaganak Limited, owns a 32 5% interest in the Karachaganak field in north-west Kazakhstan In May 2007, a new Karachaganak sales agreement was agreed with KazRosGas, a joint venture between GazProm and KazMunaiGaz The agreement sets out the commercial terms governing the sale of gas over a 15 year period and became effective in September 2007 There was growth in the Company's share of production from the Karachaganak field in 2007 producing 39 6 mmboe (2006 36 3 mmboe)

<u>Libya</u>
In October 2005, the Company was successful in the second Libyan licensing round The Company assumed 100% ownership and operatorship of Area 123 (Blocks 1 and 2) in Libya's prolific onshore Sirt basin. In addition, the Company was awarded a 50% non-operated interest in Area 171, containing Blocks 1, 2, 3 and 4 in the frontier Kufra basin Seismic was completed on all licences in September 2007 and drilling of the first well on each licence is planned to start in 2008

<u>Norway</u>
The Company, through its wholly owned subsidiaries BG Norge AS and BG Norge Limited, has interests in 19 exploration licenses offshore Norway, of which 14 are operated by those subsidiaries The Company gained two licences (awarded in January 2007) in the 2006 Awards in Pre-defined Areas licensing round, including one in the southern North Sea (the Company 40% and operator) that contains the Bream discovery The drilling of an appraisal well on Bream is scheduled for first quarter 2009 In 2007, the Company started its exploration drilling programme and drilled and completed three wells, with the Nucula well in the Barents Sea declared a technical discovery In 2008, the Company has completed the Pi North exploration well in the Southern North Sea, and in July 2008 the Company completed its second exploration well in the Barents Sea, on the Ververis prospect Both wells have been declared as technical discoveries

Directors' report for the year ended 31 December 2007 continued

Business Review and Principal Activities continued

Trinidad
Effective 1 January 2006, the Company transferred its interest in Block 5(A) to its wholly owned subsidiary BG Trinidad 5(A) Limited for consideration of £92m. Block 5(A) contains the Dolphin Deep field in the East Coast Marine Area

The Dolphin Deep field was developed and commissioned in July 2006 with production of hydrocarbons being sold to the export market Condensate is currently sold to the domestic market Dolphin Deep was developed as a subsea well program with a tie-in to the existing Dolphin platform under a Joint Use Arrangement with the Block 6 Dolphin field

China
In June 2006, the Company entered China with the signature of two Production Sharing Contracts (PSCs) covering deep water Blocks 64/11 and 53/16 and a Geophysical Survey Agreement for Block 41/06, offshore southern China The three blocks cover an area of approximately 25 800 square kilometres The exploration work programmes for blocks 64/11 and 53/16 will be carried out in three phases and involve the acquisition of 2D and 3D seismic and the drilling of exploration wells The Geophysical Survey Agreement involves the acquisition and processing of 2D seismic over a defined area and gives the Company an option to enter into a PSC for that area upon completion of this work The 2D seismic programme in all three blocks commenced during 2007

Oman
In April 2006, the Company signed an Exploration and Production Sharing Agreement with the Government of the Sultanate of Oman for a 100% interest in and operatorship of Block 60, onshore Oman Block 60 contains the Abu Butabul gas and condensate discovery, as well as other exploration prospects The Company commenced the acquisition of seismic in 2007 and began drilling in December 2007 Drilling is planned to continue into 2008 and 2009, with at least eight appraisal wells planned

Chile
In May 2007, the Final Investment Decision was taken to proceed with the Quintero LNG Import Terminal GNL Quintero SA (GNLQ) is the project company which will own and operate the terminal In addition to the Company's 40% shareholding, the other partners in the project are the Chilean national oil and gas company ENAP (20%), power company Endesa Chile (20%) and gas distribution company Metrogas S A of Santiago (20%)

Egypt
The Company, through its wholly-owned subsidiary, BG Delta Ltd, has a 25% shareholding 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 concession holders

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

For a more detailed review of the principal activities, development and performance of the business during 2007 and the position of BG Group at the end of the year, please refer to the BG Group Annual Report and Accounts 2007 – Business Review on pages 2 to 45

Directors' report for the year ended 31 December 2007 continued

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 2007 which does not form part of this report

Employees
The Company had 1,522 (2006 1,507) employees worldwide at 31 December 2007, of which 443 (2006 422) 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. With the introduction of the new Employment Equality (Age) Regulations 2006 in the UK, the Company has focused on age awareness and reviewed all relevant policies and processes for any evidence of age-related factors, making amendments where necessary The majority of employees in the UK have received briefings on the legislation, and this will continue during 2008

Certain employees of the Company and it's 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 BG Group plc's Annual Report and Accounts 2007

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 plc Annual Report and Accounts 2007

Directors' report for the year ended 31 December 2007 continued

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 2007 was £8m (2006 £9m)

Results and dividend
The profit for the year ended 31 December 2007 of £371 million (2006: £661 million) has been transferred to reserves The Directors declared and paid an interim dividend of £551 million for the year ended 31 December 2007 (2006 £892 million) The Directors have not proposed a final dividend (2006 £nil)

Directors
The following served as Directors during the year

	Appointed	Resigned
A M Almanza		
J A Berget		
M M Carne		
F J Chapman		
W M Friedrich		7 December 2007
S A Fysh		
M J Houston		
S J Ricketts		3 December 2007
C R Bland	29 July 2008	

Company Secretaries
The following served as joint Company Secretaries during the year

	Appointed	Resigned
C S Inman		
B J S Mathews		12 July 2007
A W McCulloch	12 July 2007	
K M Hubber	19 December 2007	

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 on page 25

Community involvement
During the year, the Company donated £184,561 (2006 £22,877) to charity in the UK It is the Company's policy not to make political donations, and therefore no donations were made in the EU

Under BG Group's Statement of Business Principles, it is the Group's policy not to make political donations In 2007, no donations were made in any EU member state for political purposes, as defined in Section 347A of the Companies Act 1985 For further information on BG Group's social investment, please refer to the BG Group Annual Report and Accounts 2007 – Corporate Responsibility on page 38 to 41

Directors' report for the year ended 31 December 2007 continued

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 4 days' purchases outstanding at 31 December 2007 based on the average daily amount invoiced by suppliers during the year (2006 4 days')

Derivative Financial Instruments
Details of the Company's financial instruments can be found in Note 20, page 32

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 in pages 7 to 8 of the BG Energy Holdings Limited Annual Report and Financial Statements for the year ended 31 December 2007

Auditors
The Company has elected to dispense with the annual reappointment of auditors in accordance with Section 386 of the Companies Act 1985 and accordingly PricewaterhouseCoopers LLP (the "Auditors") remain in office

Statement as to disclosure of information to auditors
As required by section 234ZA of the Companies Act 1985, each of the Directors has approved this report and confirmed that, so far as he/she 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/she has taken all the steps that he/she ought to have taken as a director in order to make him/herself 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 required by the Companies Act 1985 to prepare financial statements, for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year

The Directors consider that in preparing the Financial Statements on pages 12 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 1985

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 2007 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

Carol S Inman

C S Inman
Company Secretary

Date 28/10/2008

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 2007 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes These Financial Statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The Directors' responsibilities for preparing the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, 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

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' report is consistent with the Financial Statements

In addition we report to you, if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements

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

Opinion
In our opinion

- the Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the Financial Statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London
WC2N 6RH

Date 29 October 2008

Profit and loss account for the year ended 31 December

	Notes	2007	2006
		£m	£m
Turnover	3	**915**	1,072
Operating costs		**(790)**	(655)
Exploration expenditure		**(98)**	(61)
Depreciation		**(78)**	(81)
Operating (loss)/profit	4	**(51)**	275
Income from fixed asset investments		**501**	665
(Loss)/profit on disposal of fixed assets	5	**-**	20
Net interest payable and similar charges	8	**(64)**	(80)
Profit on ordinary activities before taxation		**386**	880
Taxation on profit on ordinary activities	9	**(15)**	(219)
Profit for the financial year	23,24	**371**	661

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 14 to 35 form part of these Financial Statements

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

	Notes	2007	2006
		£m	£m
Profit for the financial year		**371**	661
Gain/(Deficit) arising on revaluation of fixed assets	23,24	**350**	(163)
Currency translation adjustments	23,24	**6**	(20)
Actuarial gain under FRS 17		**40**	12
Movement in deferred tax asset under FRS 17		**(12)**	(4)
Total recognised gains and losses for the financial year		**755**	486

Balance sheet as at 31 December

	Notes	2007 £m	2006 £m
Fixed assets			
Intangible assets	11	**221**	91
Tangible assets	12	**526**	405
Investments	13	**3,033**	1,191
		3,780	1,687
Current assets			
Stocks	14	**41**	36
Debtors amounts falling due within one year	15	**3,141**	3,733
Cash at bank and in hand	16	**15**	-
		3,197	3,769
Creditors: amounts falling due within one year	17	**(3,841)**	(2,709)
Net current (liabilities) / assets		**(644)**	1,060
Total assets less current liabilities		**3,136**	2,747
Creditors: amounts falling due after more than one year	18	**-**	(2)
Pension liability	19	**(99)**	(132)
Provisions for other liabilities and charges	21	**(487)**	(267)
Net assets		**2,550**	2,346
Capital and reserves			
Called up share capital	22	**1,688**	1,688
Profit and loss account	23	**141**	287
Revaluation reserve	23	**721**	371
Equity shareholder's funds	24	**2,550**	2,346

The notes on pages 14 to 35 form part of these Financial Statements

The Financial Statements on pages 12 to 35 were approved and authorised for issue by the Board of Directors and were signed on its behalf by

J A Berget
Director

Date 28/10/08

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 121 and 122 of the Annual Report and Accounts of BG Group plc for the year ended 31 December 2007

Exemptions
The Company is a wholly-owned subsidiary undertaking of BG Group plc and is therefore exempt under Section 228 of the Companies Act 1985 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 1985

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 2007, a gain of £350 million (2006 loss £163 million) was recognised in the revaluation reserve and a loss of £4 million (2006 loss of £32 million) 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 (2006 £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 are stated at weighted average historical cost less provision for deterioration and obsolescence, or if lower, net realisable value

Notes to the Financial Statements continued

2 Accounting policies continued

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

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 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 (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

Notes to the Financial Statements continued

2 Accounting policies continued

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 cash-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

Upstream gas trading contracts and related derivative instruments that are settled by the physical purchase and re-sale of third-party gas are presented on a net basis within operating costs As these activities are incidental and different in nature to the Company's ordinary activities, this treatment is in conformity with the Companies Act 1985 Gross trading turnover under these contracts was £3,213m and related costs were £3,221m The net loss on gas trading activities was £8m

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
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

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 using local finance, these are re-valued using the closing rate method.

Notes to the Financial Statements continued

2 Accounting policies continued

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 as incurred

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 which 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

Notes to the Financial Statements continued

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

	2007 £m	2006 £m
Gas, condensate and liquefied petroleum gas	**663**	721
Oil	**165**	228
Tariff income	**84**	113
Other	**3**	10
	915	1,072

4 Operating (loss)/profit

Operating (loss)/profit is stated after charging for

	2007 £m	2006 £m
Amounts written off fixed assets		
Depreciation	**78**	81
Unsuccessful exploration expenditure written off	**13**	14
	91	95
Operating leases		
Other	**11**	11
	11	11
Employee costs are included as follows *		
Wages and salaries	**147**	122
Social security costs	**13**	10
Pension costs **	**49**	48
Share based payments (see below)	**55**	37
Other (including incentive schemes)	**32**	39
	296	256

* All employee costs are shown gross of recharges to other companies within BG Group

** Pension costs include finance income/costs relating to pensions as detailed in notes 8 and 19

In June 2007, BG Group sold its 25% equity interest in Interconnector (UK) Limited whilst retaining its throughput capacity contracts with this company As part of this transaction, BG Group reviewed the retained capacity contracts in the Interconnector pipeline and concluded that obligations associated with these contracts exceed the benefit expected to be received from the Interconnector interest Accordingly, a pre-tax provision of £156m was made to reflect the present obligation under these contracts

Operating (loss)/profit is also stated after charging total auditors' remuneration for BG Group of £192,150 (2006 £183,000) Fees have not been recharged to the group companies The Company's share of auditors' remuneration for the year was £10,500 (2006 £10,000)

Notes to the Financial Statements continued

4 Operating (loss)/profit continued

The average number of employees durıng the year was	**2007**	2006
	Number	Number
UK	**1,054**	1,030
Non-UK	**444**	402

5 (Loss)/profit on disposal of fixed assets

Durıng 2006, the Company transferred ıts ınterest ın Block 5(A) to ıts subsıdıary company BG Trınıdad 5(A) Lımıted realısıng a pre-tax profıt of £20m

6 Share-based payments

The cost recognısed ın respect of share-based payments for 2007 was £55m (2006 £37m), of whıch £29m (2006 £26m) related to equıty-settled share-based payment transactıons

Company Share Option Scheme

Detaıls of the BG Group Company Share Optıon Scheme (CSOS) are gıven on page 64 of the BG Group Annual Report and Accounts 2007 The first grants under the CSOS were made ın November 2000 Further grants have been made ın all subsequent years up to and ıncludıng 2007 In 2007, grants of 12 9m (2006 14 8m) share optıons were made under the CSOS

The costs of thıs scheme are charged to the ıncome statement over the vestıng perıod, based upon the faır value of the share optıon at the grant date and the lıkelıhood of allocatıons vestıng under the scheme In 2007, the charge ın respect of the CSOS was £16m (2006 £14m)

The faır value of share optıons granted durıng the year ın respect of the CSOS ıs estımated usıng a Black-Scholes optıon prıcıng model wıth the followıng assumptıons weıghted average share prıce of £7 87 (2006 £6 84), exercıse prıce of £7 92 (2006 £6 90), dıvıdend yıeld of 1 0% (2006 1 0%), volatılıty of 22% (2006 21%), a rısk-free rate of 5 16% (2006 4 70%) and an expected lıfe of five years (2006 five years) The average value of share optıons granted durıng the year was £2 09 per share (2006 £1 70 per share)

Expected volatılıty was determıned by calculatıng the hıstorıcal volatılıty of the Group's share prıce over the prevıous five year perıod

The expected lıfe used ın the model has been adjusted, based on management's best estımate, for the effects of non-transferabılıty, exercıse restrıctıons and behavıoural consıderatıons

Notes to the Financial Statements continued

6 Share-based payments continued

Long Term Incentive Scheme
Details of the BG Group Long Term Incentive Scheme (LTIS) are given on page 64 of the BG Group Annual Report and Accounts 2007 In 2007, notional allocations of 4 0m ordinary shares (2006 3 6m ordinary shares) were made under the LTIS

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 2007, the charge in respect of the LTIS was £8m (2006 £7m)

The fair value of shares allocated during the year in respect of the LTIS is estimated using a Monte Carlo projection model with the following assumptions weighted average share price of £7 87 (2006 £6 84), exercise price of £nil (2006 £nil), a risk-free rate of 4 9% (2006 5 2%), and a vesting period of three years (2006 three years) The model also contains assumptions for both the Group and each member of the LTIS comparator group (as set out on page 64 of the BG Group Annual Report and Accounts 2007) in respect of volatility, average share price growth and share price correlation The fair value reflects the probability of market performance conditions being achieved The fair value of shares allocated during the year was £4 38 per share (2006 £4 13 per share) The assumptions used in estimating the fair value of shares for the LTIS are based on US data because most of the companies in the LTIS comparator group are US-based

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 The expected life used in the model has been adjusted, based on the vesting period, management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations The expected life used in the model has been based on the vesting period

Sharesave Scheme
Details of the BG Group Sharesave Scheme are given on page 65 of the BG Group Annual Report and Accounts 2007 In 2007, grants of 0 7m (2006 0 7m) share options were made under the Sharesave Scheme

The costs of this scheme 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 2007, the charge in respect of the Sharesave Scheme was £1 0m (2006 £1 0m)

Notes to the Financial Statements continued

6 Share-based payments continued

The fair value of share options granted during the year in respect of the Sharesave Scheme is estimated using a Black-Scholes option pricing model with the following assumptions weighted average share price of £10.06 (2006 £6 84), exercise price of £7 16 (2006: £5 82), dividend yield of 1.0% (2006 1 0%), volatility of 25% (2006 22%), a weighted average risk-free rate of 4 47% (2006 4.74%) and a weighted average expected life of 3 years (2006 4 1 years) The average fair value of share options granted during the year was £3 76 per share (2006 £2 11 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 Schemes

Share Incentive Plan
Details of the BG Group Share Incentive Plan are given on page 65 of the BG Group Annual Report and Accounts 2007 During the year, 0 6m ordinary shares were awarded as Free Shares under the plan (2006 0 5m ordinary shares)

Under FRS 20 the charge to the profit and loss account in respect of the award is based on the market value of the shares at the grant date The fair value of the shares awarded during the year was £7 30 per share (2006 £7 73 per share) In 2007, the charge in respect of the Share Incentive Plan was £4m (2006 £4m)

Cash-settled share-based payments
Cash-settled share-based payments arise when the Company acquires goods or services by incurring a liability to transfer cash to the supplier of those goods or services for amounts that are based on the price (or value) of the ultimate Parent Company's shares

A charge of £4m has been made in respect of cash-settled CSOS awards (2006 £3m) the terms of which are the same as the equity-settled CSOS awards and a charge of £22m (2006 £8m) has been made in respect of social security costs on employee share option and share schemes

The costs of the cash-settled CSOS awards are charged to the profit and loss account over the vesting period 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 cash-settled options at the balance sheet date has been estimated using a Black-Scholes option pricing model with the following assumptions share price of £11 50 (2006 £7 03), weighted average exercise price of £7 67 (2006 £4 72), dividend yield of 1 0% (2006 1 0%), volatility of 22 60% (2006 20 80%), a weighted average risk-free rate of 4 72% (2006 5 09%) and an expected life of five years (2006 three years) The average fair value of cash-settled CSOS awards at the balance sheet date was £5 04 (2006. £3 02)

Notes to the Financial Statements continued

6 Share-based payments continued

The charge to the income statement in respect of social security costs has been calculated based on the intrinsic value of the awards at the balance sheet date multiplied by the current employer's National Insurance rate. For awards that have vested at the year end but have not yet been exercised the intrinsic value is based on the share price at the balance sheet date less the exercise price This charge covers social security costs on awards made before and after 7 November 2002

For awards that have not vested at the year end the intrinsic value is based on the market value of the underlying shares at the balance sheet date less the exercise price

Analysis of share options in BG Group as at 31 December 2007

	Date of grant	Number of shares m	Weighted average option price £	Normal exercisable date	Weighted average remaining contractual life
Sharesave Scheme options					
	2002	0 03	2 19	2007	0yr 4mths
	2003	0 12	2 19	2008	1yr 4mths
	2004	0 54	2 74	2007/9	1yr 10mths
	2005	0 43	3 95	2008/10	2yrs 1mth
	2006	0 64	5 82	2009/11	3yrs 6mths
	2007	0 69	7 16	2011	3yrs 6mths
Company Share Option Scheme options[a]					
	2000	0 41	2 685	2010	2yrs 10mths
	2001	1 02	2 5634	2011	3yrs 10mths
	2002	2 21	2 5175	2012	4yrs 8mths
	2003	4 28	2 705	2013	5yrs 8mths
	2004	6 96	3 4733	2014	6yrs 8mths
	2005	0.10	3 9658	2015	7yrs 1mth
	2005	0 04	4 3883	2015	7yrs 5mths
	2005	13 83	4 9942	2015	7yrs 8mths
	2006	0 04	6 26	2016	8yrs 1mth
	2006	13 42	6 8983	2016	8yrs 8mths
	2007	12 74	7 92	2017	9yrs 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

Notes to the Financial Statements continued

6 Share-based payments continued

Weighted average exercise price of share options in BG Group

	Sharesave Scheme options (£)	Company Share Option Scheme options (£)
Outstanding as at 1 January 2007	3 59	4 47
Granted	7 16	7 92
Exercised	2 65	3 08
Lapsed	4 97	5 82
Outstanding as at 31 December 2007	4 96	5 60
Exercisable as at 31 December 2007	2 68	3 03

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

Summary of movements in share options in BG Group

	Sharesave Scheme options m	Company Share Option Scheme options m
2006		
Outstanding as at 1 January 2006	3 7	55 3
Granted	0 7	14 8
Exercised	(1 4)	(8 0)
Forfeited	(0 1)	(1 8)
Lapsed	-	-
Outstanding as at 31 December 2006	2 9	60 3
Exercisable as at 31 December 2006	0 1	16 2
Option price range as at 31 December 2006 (£)	2 19 – 5 82	2 35 – 6 89
Option price range for exercised options (£)	2 19 – 3 95	2 35 – 4 99
Weighted average share price at the date of exercise for options exercised in the year	6 84	6 82
2007		
Outstanding as at 1 January 2007	2.9	60 3
Granted	0 7	12 9
Exercised	(1 0)	(15 5)
Forfeited	(0 1)	(2 6)
Outstanding as at 31 December 2007	2 5	55 1
Exercisable as at 31 December 2007	0 2	14 9
Option price range as at 31 December 2007(£)	2 19 – 7 16	2 52 – 7 92
Option price range for exercised options (£)	2 19 – 5 82	2 52 – 6 90
Weighted average share price at the date of exercise for options exercised in the year	8 91	8 30

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

Notes to the Financial Statements continued

7 Directors' emoluments

	2007 £000	2006 £000
Emoluments	**3,492**	3,343
Pension scheme contributions	**95**	135
Benefits in kind	**786**	156
Share-based payments	**3,027**	2,085
	7,400	5,719

The above figures exclude amounts paid to Frank Chapman, William Friedrich and Ashley Almanza whose emoluments are payable by BG Group plc Details of the emoluments paid to them during the period are set out in BG Group plc's Annual Report and Accounts 2007

8 Net interest payable and similar charges

	2007 £m	2006 £m
Interest payable		
on intercompany loan agreements	**(119)**	(105)
other	**-**	-
Foreign exchange (losses)/gains	**(8)**	2
Interest receivable	**69**	23
	(58)	(80)
Unwinding of discount on pension liability	**3**	3
Unwinding of discount on provisions	**(9)**	(3)
	(64)	(80)

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

Notes to the Financial Statements continued

9 Taxation

The charge for taxation comprises

	2007 £m	2006 £m
Current Tax		
Corporation tax credit/(charge) at 30% and 50% (2006 30% and 50%)	**45**	(96)
Over provision in respect of prior periods	**30**	-
Under provision in respect of Foreign Tax of prior periods	**(8)**	-
Foreign tax	**(2)**	(33)
Petroleum revenue tax	**(19)**	(23)
Total current tax credit/(charge)	**46**	(152)
Deferred Tax (note 21)		
Deferred corporation tax charge at 30% and 50% (2006 30% and 50%)	**(63)**	(56)
Deferred tax over/(under) provision in respect of previous periods	**1**	(9)
Deferred petroleum revenue tax	**5**	(4)
Pension adjustment (FRS 17)	**(3)**	2
Effect of changes in tax rate	**(1)**	-
Total deferred tax charge	**(61)**	(67)
Total tax charge	**(15)**	(219)

Factors affecting current tax charge for the year:

	2007 £m	2006 £m
Profit on ordinary activities before tax	**386**	880
Tax on profit on ordinary activities at 30% and 50% (2006 30% and 50%)	**184**	352
Effects of:		
Expenses not deductible for tax purposes	**12**	28
Pension Adjustment (FRS 17)	**(3)**	2
Capital allowances in excess of depreciation	**(64)**	(67)
Other timing differences	**4**	9
Petroleum Revenue Tax net of corporation tax	**6**	12
Adjustment to tax charge in respect of previous periods	**(22)**	-
Unutilised foreign tax	**2**	33
Deduction for share based payments	**(14)**	(11)
Non taxable dividend income	**(151)**	(200)
Non taxable profit on disposal	**-**	(6)
Current year tax (credit)/charge	**(46)**	152

Effective 1 April 2008, the applicable rate of UK corporation tax is 28% This change does not affect UK North Sea profits

Notes to the Financial Statements continued

10 Dividends

An interim dividend of £551m (£0 33 per share) was declared and paid on 21 November 2007 The comparative values for 2006 are £892m (£0 53 per share) The Directors do not propose payment of a final dividend

11 Intangible assets

Unproved properties:	**£m**
At 1 January 2007	91
Additions	153
Transfers to tangible assets	-
Unsuccessful exploration expenditure written off	(13)
Disposals	(15)
Currency translation adjustment	5
At 31 December 2007	**221**

12 Tangible assets

	Proved oil and gas properties	**Land, buildings, office equipment and motor vehicles**	**Total**
Cost	**£m**	**£m**	**£m**
At 1 January 2007	1,515	163	1,678
Additions	104	91	195
Disposals and transfers	-	(3)	(3)
Foreign exchange revaluation	4	-	4
At 31 December 2007	**1,623**	**251**	**1,874**
Accumulated depreciation			
At 1 January 2007	1,161	112	1,273
Provision for the year	54	24	78
Disposals and transfers	-	(3)	(3)
At 31 December 2007	**1,215**	**133**	**1,348**
Net book value			
At 31 December 2007	**408**	**118**	**526**
At 31 December 2006	354	51	405

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 2007	1,191	-	1,191
Investments	1,421	75	1,496
Revaluations	350	-	350
Currency translation adjustment	(4)	-	(4)
At 31 December 2007	**2,958**	**75**	**3,033**

The Company's principal subsidiary undertakings as at 31 December 2007 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

	2007 £m	2006 £m
Gas stocks	**21**	26
Raw materials and consumables	**20**	10
	41	36

15 Debtors: amounts falling due within one year

	2007 £m	2006 £m
Trade debtors	**557**	483
Amounts owed by group undertakings	**2,007**	2,795
Other debtors	**32**	51
Prepayments and accrued income	**32**	35
Amounts owed by group undertakings in respect of taxation	**513**	369
	3,141	3,733

Where applicable, interest was receivable on intercompany loans during the year at LIBOR

Notes to the Financial Statements continued

16 Cash at bank and in hand

At 31 December 2007, cash at bank and in hand included £12 6m of cash deposits held in a restricted escrow account on behalf of joint venture operations

17 Creditors: amounts falling due within one year

	2007 £m	2006 £m
Bank loans and overdraft	-	5
Trade creditors	33	304
Amounts owed to group undertakings	3,126	2,234
Other creditors	27	9
Accruals	601	157
Amounts payable in respect of taxation	54	-
	3,841	2,709

Where applicable, interest was payable on intercompany loans during the year at a rate of LIBOR plus 25 basis points

18 Creditors: amounts falling due after more than one year

	2007 £m	2006 £m
Deferred income	-	2

19 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 registered (formally exempt approved) and 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

Most members contribute to the Scheme at a rate of 3% of pensionable pay Participating employers' contributions, including Scheme expenses, are certified by the Scheme's independent qualified actuary For the year ended 31 December 2007, the employer's contribution rate in respect of most scheme members was effectively 26 9% of pensionable pay

As a result of the new pensions regime introduced in April 2006, the BG Supplementary Benefits Scheme is now available to provide benefits in excess of the new 'lifetime allowance' This scheme is an unfunded, unregistered (formerly unapproved) 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 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

Notes to the Financial Statements continued

19 Pension liability continued

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 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 is provided in respect of the BG Pension Scheme and the BG Supplementary Benefits Scheme It has been provided in accordance with the arrangements of FRS 17

A full independent actuarial valuation of the Scheme was carried out as at 31 March 2005 The next such valuation will be undertaken as at 31 March 2008 A valuation of the schemes' assets and expected liabilities as at 31 December 2007 was carried out by independent actuaries in accordance with the requirements of FRS 17 based on the following assumptions

	2007	2006	2005
	%	%	%
Rate of price inflation and benefit increases[(a)]	3 5	3 1	2 9
Future increases in earnings	5 5	5 1	4 9
Discount rate	5 6	4 9	4 8

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

In determining the defined benefit obligation as at 31 December 2007 for the BG plans, mortality assumptions are based on the 1992 mortality series tables, 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

Notes to the Financial Statements continued

19 Pension liability continued

As at 31 December 2007, the value of the scheme's assets and expected rates of return, together with the liabilities in the schemes, were as follows

	2007		2006		2005	
	Expected rate of return (a) %	Value £m	Expected rate of return (a) %	Value £m	Expected rate of return (a) %	Value £m
Equities	7.9	372	7 7	306	8 0	337
Long/short and hedge fund strategies	7.4	128	7 2	97	-	-
Index-linked gilts	4.6	26	4 3	21	4 0	17
Corporate bonds	5.9	60	5 5	49	4 8	41
Cash	4.5	3	4.1	7	3 9	4
Total market value of assets		589		480		399
Present value of liabilities		(726)		(668)		(590)
Deficit in schemes		(137)		(188)		(191)
Deferred tax asset at 28% (2005/6 30%)		38		56		57
Net pension liability under FRS 17		(99)		(132)		(134)

(a) Long-term expected rate of return

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 2007

Profit and loss account	2007 £m	2006 £m
Operating profit		
Current service cost	51	41
Past service cost	-	8
Loss on curtailment	1	2
Total charge to operating profit	52	51
Net interest		
Expected return on the schemes' assets	(35)	(31)
Interest on the schemes' liabilities	32	28
Net charge to interest (see note 8)	(3)	(3)

	2007 £m	2006 £m
Statement of total recognised gains and losses		
Actual return less expected return on the schemes' assets	(18)	(18)
Experience losses arising on the schemes' liabilities	9	4
Changes in assumptions underlying the present value of the schemes' liabilities	(31)	2
Actuarial gain recognised in the statement of total recognised gains and losses	(40)	(12)

Notes to the Financial Statements continued

19 Pension liability continued

	2007 £m	2006 £m
Movement in deficit during the year		
Deficit in schemes as at 1 January	**(188)**	(191)
Movement in year		
Current service cost	**(51)**	(41)
Past service cost	**-**	(7)
Contributions	**60**	38
Curtailment costs	**(1)**	(2)
Other finance charges	**3**	3
Actuarial gain	**40**	12
Deficit in schemes as at 31 December	**(137)**	(188)

Details of experience gains and (losses) for the year to 31 December 2007	**2007 £m**	2006 £m	2005 £m	2004 £m	2003 £m
Difference between the expected and actual return on the schemes' assets					
Amount (£m)	**18**	18	50	16	22
Percentage of the schemes' assets (%)	**3.1**	3 6	12 5	5 2	8 8
Experience gains/(losses) on the schemes' liabilities					
Amount (£m)	**(9)**	(4)	(3)	(1)	4
Percentage of the present value of the schemes' liabilities (%)	**1.2**	0 6	0 5	0 1	1 1
Total amount recognised in the consolidated statement of total recognised gains and losses					
Amount (£m)	**40**	12	(48)	(4)	(21)
Percentage of the present value of the schemes' liabilities (%)	**5.5**	1 8	8 1	1 0	5 7

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 2008 to the BG Pension Scheme are expected to be £44m, including £11m in respect of payments made by the Group to reduce the actuarial funding deficit of the Scheme

20 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

Notes to the Financial Statements continued

20 Fair value of financial instruments continued

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

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

	2007		2006	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Long-term UK gas contracts	-	**(373)**	-	(233)
Other commodity derivatives	-	**(2)**	-	(26)
	-	**(375)**	-	(259)

21 Provisions for liabilities and charges

	Deferred taxation £m	**Decommissioning costs £m**	**Onerous contracts £m**	**Other £m**	**Total £m**
At 1 January 2007	161	81	-	25	267
Additions	-	11	156	1	168
Use of provision	-	-	(7)	(5)	(12)
Unwinding of discount	-	4	5	-	9
Deferred tax charge	55	-	-	-	55
At 31 December 2007	**216**	**96**	**154**	**21**	**487**

The deferred tax provision above excludes a deferred tax asset of £38m (2006 £56m) arising on the pension liability (see note 19)

The deferred taxation provision comprises·

	2007 £m	2006 £m
Accelerated capital allowances	**226**	158
Provision for liabilities allowable for tax in future years	**(42)**	(32)
Deferred petroleum tax net of related corporation tax relief	**32**	35
	216	161

As at 31 December 2007 there was a £5m deferred tax asset resulting from the timing difference between depreciation on buildings and Industrial Buildings Allowances As Industrial Buildings Allowances are to be progressively phased out from 2008 to 2011 this deferred tax assets is not expected to be recoverable

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 2007 and 2041

Notes to the Financial Statements continued

21 Provisions for liabilities and charges continued

Other

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

22 Called up share capital

	2007 £m	2006 £m
Authorised:		
3,000,000,000 ordinary shares of £1 each	**3,000**	3,000
Allotted and fully paid:		
1,688,110,000 ordinary shares of £1 each	**1,688**	1,688

23 Reserves

	Revaluation reserve £m	Profit and loss account £m
As at 1 January 2007	371	287
Revaluation	350	-
Actuarial gain	-	28
Currency translation differences	-	6
Transfer from profit and loss account	-	371
Dividends paid	-	(551)
As at 31 December 2007	**721**	**141**

Included in currency translation adjustments are amounts relating to the revaluation of BG Karachaganak Limited (2007 £4m loss, 2006 £32m loss), partially off-set by the revaluation of the loan to finance the investment (2007 £1m gain, 2006 £12m gain) Currency translation also includes amounts relating to the revaluation of BG Canada (2007 £9m gain, 2006 £nil)

24 Reconciliation of movements in shareholder's funds

	2007 £m	2006 £m
As at 1 January	**2,346**	2,752
Transfer from profit and loss account	**371**	661
Dividends paid	**(551)**	(892)
Revaluation of fixed asset investments	**350**	(163)
Currency translation adjustment	**6**	(20)
Actuarial gain	**28**	8
As at 31 December	**2,550**	2,346

Notes to the Financial Statements continued

25 Capital commitments and contingencies

(a) Capital expenditure	2007 £m	2006 £m
In respect of contracts placed	**431**	178

(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 £70m at 31 December 2007 (2006 £51m)

Guarantees to fellow subsidiaries of BG Group plc
The Company has provided financial guarantees in respect of fellow subsidiaries' repayment of leases, indemnities to third parties and contractual obligations The total exposure under these guarantees is estimated at £364m (2006 £385m)

26 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

Lease commitments expiring	2007 £m Land and Buildings	2006 £m Land and buildings
After 5 years	**8**	8
	8	8