

BG Group Employee Shares Trustees Limited

Annual Report and Financial Statements For the year ended 31 December 2003



Company Registration Number: 3167150

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Directors' report for the year ended 31 December 2003

The Directors submit their report and the audited Financial Statements for the year ended 31 December 2003.

Principal activities

The principal activity of the Company is to act as the trustee of the BG Group Employee Profit Sharing Scheme (the Scheme), an Inland Revenue approved employee share scheme established for the benefit of employees of participating subsidiary undertakings of BG Group plc in accordance with the terms of the Trust Deed and Rules dated 13 March 2000.

Review of business

The Company holds shares as trustee for employees of participating companies, which were appropriated in April 2001 under the Scheme. During the year ended 31 December 2003, shares appropriated in April 2000 were transferred to employees of participating companies in accordance with the rules of the Trust.

The number of participants in the Scheme and the number of ordinary shares of BG Group plc and National Grid Transco plc held by the Company as trustee on behalf of the participants, is as follows:

	31 December 2003	31 December 2002
Number of participants	16,835	32,677
Number of ordinary shares – BG Group plc	9,800,503	20,346,738
Number of ordinary shares – National Grid Transco plc	-	3,819,377

At an EGM held on 16 October 2000, the shareholders of BG Group plc approved the demerger of certain businesses to Lattice Group plc, effective on 23 October 2000. Under the terms of the demerger, shareholders became entitled to one Lattice Group plc ordinary share for each BG Group plc ordinary share held at Demerger Record Time.

Following the merger of Lattice Group plc with National Grid Group plc in 2002, ordinary shares in Lattice Group plc were exchanged for shares in the new company, National Grid Transco plc, at the merger ratio of 0.375 shares in National Grid Transco plc for every Lattice Group plc share held.

Results and dividend

The Company has no income other than amounts paid to it by the participating companies which are to be applied in the subscription for, or purchase of, shares to be held on trust for the benefit of participants under the provisions of the Trust Deed and Rules dated 13 March 2000. Additionally, each participating company covenants to pay all of the costs

Directors' report for the year ended 31 December 2003 (continued)

and expenses incurred by the trustees in the establishment, operation and determination of the Scheme. Accordingly, no profit and loss account has been prepared.

The Directors do not propose to declare a dividend for the year ended 31 December 2003 (2002: £nil).

Directors' insurance

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

Directors

The following served as Directors during the year:

P G Duffy (Chairman)
T R Sach

Company Secretary

The following served as Company Secretary during the year:

C S Inman

Directors' interests

At no time did any Director, still holding office at 31 December 2003, have any beneficial interest in the shares of the Company or any other company within the BG Group plc except for interests in the shares of the parent company, BG Group plc, as stated below:

Beneficial holdings

	Beneficial interests in ordinary shares	
	As at 1 Jan 2003	As at 31 Dec 2003
P G Duffy	1,841	3,632
T R Sach	15,721	18,531

Sharesave scheme

	Options as at 1 Jan 2003	Options granted in year	Options exercised in year	Options as at 31 Dec 2003
P G Duffy	4,286	-	-	4,286
T R Sach	5,485	-	-	5,485

Directors' report for the year ended 31 December 2003 (continued)

Company share option scheme

	Options as at 1 Jan 2003	Options granted in year	Options exercised in year	Options as at 31 Dec 2003
P G Duffy	256,254	106,284	-	362,538
T R Sach	56,379	19,408	-	75,787

Long-term incentive scheme

	Notional allocations of shares as at 1 Jan 2003	Notional allocations of shares made during the year	Number of shares added through dividend reinvestment	Forfeited at end of performance period	Shares vested during the year	Notional allocation of shares as at 31 Dec 2003
P G Duffy	231,587	157,954	-	-	-	389,541
T R Sach	14,882	22,663	17	2,035	1,518	34,009

Full details of all employee share schemes can be found in the BG Group plc Annual Report and Accounts 2003.

Auditors

The Company has elected to dispense with the annual reappointment of auditors in accordance with s386 of the Companies Act 1985 and accordingly PricewaterhouseCoopers LLP remain in office.

By order of the Board



C S Inman
Company Secretary

Date: 27/9/04

Registered Office:
100 Thames Valley Park Drive
Reading
Berkshire
RG6 1PT
Registered in England & Wales No. 3167150

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 8 to 10 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 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.

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.

Independent auditors' report to the member of BG Group Employee Shares Trustees Limited

We have audited the Financial Statements which comprise the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Financial Statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's member 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 if, in our opinion, the Directors' report is not consistent with the Financial Statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. The other information comprises only the Directors' report.

Basis of Audit Opinion

We conducted our audit in accordance with auditing standards 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,

**Independent auditors' report to the members of BG Group
Employee Shares Trustees Limited (continued)**

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.

Opinion

In our opinion, the Financial Statements give a true and fair view of the state of affairs of the company at 31 December 2003 and have been properly prepared in accordance with the Companies Act 1985.



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

Date: 27/9/04.

Balance sheet as at 31 December

	Notes	2003 £	2002 £
Current assets			
Debtors: amounts falling due within one year	4	<u>28,754</u>	<u>32,315</u>
		28,754	32,315
Creditors: amounts falling due within one year	5	<u>(28,753)</u>	<u>(32,314)</u>
Net assets		<u>1</u>	<u>1</u>
Capital and reserves			
Called up share capital	6	<u>1</u>	<u>1</u>
Equity shareholder's funds	7	<u>1</u>	<u>1</u>

The Financial Statements on pages 8 to 10 were approved by the Board of Directors and signed on its behalf by:



P G Duffy
Director

Date: 27.9.04

The notes on pages 9 to 10 form part of these Financial Statements.

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 these consolidated accounts may be obtained from the Company Secretary, 100 Thames Valley Park Drive, Reading, Berks, 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. A summary of the more important accounting policies, which have been applied consistently, is set out below.

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.

Deferred Tax

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.

3 Profit and loss account

The Company has no income and under the provisions of the Trust Deed and Rules dated 13 March 2000 all costs and expenses of the trustees (including the audit fee) are met by each of the participating companies. Accordingly, no profit and loss account is presented.

No Directors received emoluments in respect of their services to the Company during the year ended 31 December 2003 (2002: £nil). The Company had no employees (2002: nil).

4 Debtors: amounts falling due within one year

	2003 £	2002 £
Amount owed by BG Group plc	12,028	12,454
Amount owed by other group undertakings	1	1
Amount owed by National Grid Transco plc	16,725	16,937
Accrued proceeds from the sale of shares authorised by participants	-	2,923
	<u>28,754</u>	<u>32,315</u>

5 Creditors: amounts falling due within one year

	2003 £	2002 £
Amounts due to participants leaving the scheme	-	2,371
Unclaimed dividends owed to participants	28,753	29,391
Income tax collected from participants leaving the scheme	-	552
	<u>28,753</u>	<u>32,314</u>

6 Called up share capital

	2003 £	2002 £
Authorised		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted and fully paid up		
1 ordinary share of £1 each	<u>1</u>	<u>1</u>

7 Reconciliation of movements in shareholder's funds

There were no movements in shareholder's funds during the financial year (2002: £nil).