

BG Great Britain Limited

Annual Report and Financial Statements

For the year ended 31 December 2006

Company Registration Number: 909162

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Directors' report for the year ended 31 December 2006

The Directors present their report and the audited Financial Statements for the year ended 31 December 2006.

Principal activities

The principal activity of BG Great Britain Limited is 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.

Review of business

On 1 September 2000, the Company assigned its legal rights to Heather field petroleum to the DNO ASA group. The Company will be liable for any future decommissioning costs, in accordance with their share of the Heather field, and has retained its interest in the Ninian Pipeline and the Sullom Voe Terminal. On 13 February 2004, the DNO ASA group sold and transferred all of its issued share capital in DNO Britain Limited to Lundin Petroleum AB (a subsidiary of the Lundin AB group) including its interest in the Heather field. The Lundin AB group's interest in the Heather field is currently held by Lundin Heather Limited ("Lundin").

The future costs of the Heather decommissioning are expected to be spread over a 10 year period and the start of the decommissioning is expected to be 31 December 2016. Cessation of production will be a function of the success of the development of the Broom field adjacent to Heather by Lundin, the production levels and the prevailing oil price.

As a remaining Ninian Pipeline and Sullom Voe Terminal owner, the Company continues to participate in tariff negotiations with potential users of the Ninian Pipeline and Sullom Voe Terminal infrastructure.

The Company continues its commercial activities relating to the monetisation of Palestinian gas. Negotiations have been ongoing with Palestinian authorities and potential buyers. No firm sales agreements have been reached.

Results and dividend

The retained profit for the year ended 31 December 2006 of £2,908,000 (2005: £4,890,000 loss) has been transferred to reserves. The Directors do not propose to declare a dividend for the year ended 31 December 2006 (2005: £nil).

Directors

The following served as Directors during the year and the period to the date of this report:

Resigned

| | |
|-------------|---------------|
| J A Berget | |
| M J Houston | |
| D E Roberts | 10 March 2006 |

Company Secretaries

The following served as joint Company Secretaries during the year:

Appointed

Resigned

| | | |
|---------------|-------------------|-------------------|
| C S Inman | | |
| P A Moore | | 14 September 2007 |
| A W McCulloch | 14 September 2007 | |

Directors' insurance

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

Directors' report for the year ended 31 December 2006 continued**Directors' interests**

At no time did any Director, still holding office at 31 December 2006, have any beneficial interest in the shares of the Company or any other company within BG Group except for those interests in the shares of the ultimate parent undertaking, BG Group plc, as stated below.

Beneficial holdings

| | Beneficial interests in ordinary shares | |
|-------------|---|-------------------|
| | As at 1 Jan 2006 | As at 31 Dec 2006 |
| J A Berget | 183 | 819 |
| M J Houston | 173,361 | 256,418 |

Sharesave Scheme

| | Options as at 1 Jan 2006 | Options granted in the year | Options exercised in the year | Options as at 31 Dec 2006 |
|-------------|-----------------------------|--------------------------------|----------------------------------|------------------------------|
| J A Berget | 4,183 | - | - | 4,183 |
| M J Houston | 6,031 | - | - | 6,031 |

Company Share Option Scheme

| | Options as at 1 Jan 2006 | Options granted in the year | Options exercised in the year | Options as at 31 Dec 2006 |
|-------------|-----------------------------|--------------------------------|----------------------------------|------------------------------|
| J A Berget | 296,199 | 142,698 | - | 438,897 |
| M J Houston | 689,430 | 171,238 | - | 860,668 |

Long Term Incentive Scheme

| | Notional allocations of shares as at 1 Jan 2006 | Notional allocations of shares made during the year | Number of shares forfeited at end of performance period | Number of shares vested during the year | Notional allocations of shares as at 31 Dec 2006 |
|-------------|--|---|--|---|--|
| J A Berget | 388,259 | 118,208 | - | - | 506,467 |
| M J Houston | 574,979 | 141,850 | (46,680) | (140,040) | 530,109 |

Full details of all employee share and option schemes can be found in the BG Group Annual Report and Accounts 2006.

Suppliers

It is the Company's policy to pay all of 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 nil days purchases outstanding at 31 December 2006 (2005: nil days) based on the average daily amount invoiced by suppliers during the year.

Directors' report for the year ended 31 December 2006 continued

Derivative financial instruments

The Company did not transact in any derivative financial instruments during the year. Full details of the BG Group policies and procedures surrounding financial instruments and details of such transactions can be found in the BG Group Annual Report and Accounts 2006.

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 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 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.

Directors' report for the year ended 31 December 2006 continued

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 7 to 15 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.

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:



C S Inman
Company Secretary

Date: 23/10/07

Registered Office:
100 Thames Valley Park Drive
Reading
Berkshire
RG6 1PT
Registered in England & Wales No. 909162

Independent Auditor's report to the member of BG Great Britain Limited

We have audited the Financial Statements of BG Great Britain Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet 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 member 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 Auditor's report to the member of BG Great Britain 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 2006 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: *30 October 2007*

Profit and loss account for the year ended 31 December

| | Notes | 2006 £000 | 2005 £000 |
|---|--------|----------------|--------------|
| Turnover | 3 | 54 | 33 |
| Operating costs | | 3,621 | (155) |
| Exploration expenditure | | (358) | (5,645) |
| Depreciation | | (7) | (13) |
| Operating profit/(loss) | 4 | 3,310 | (5,780) |
| Net interest payable | 5 | (1,485) | (1,404) |
| Profit/(loss) on ordinary activities before taxation | | 1,825 | (7,184) |
| Tax on profit on ordinary activities | 6 | 1,083 | 2,294 |
| Retained profit/(loss) for the financial year | 14, 15 | 2,908 | (4,890) |

The results for the year are derived solely from continuing operations.

There were no recognised gains and losses other than in the profit and loss account and, therefore, a separate statement of total recognised gains and losses has not been presented.

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

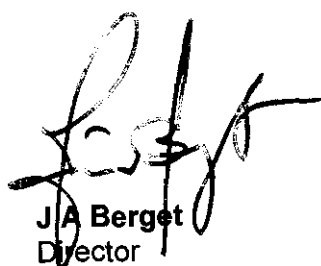
The notes on pages 9 to 15 form part of these Financial Statements.

Balance sheet as at 31 December

| | Notes | 2006 £000 | 2005 £000 |
|---|--------------|----------------------|----------------------|
| Fixed assets | | | |
| Intangible assets | 7 | 27,910 | 20,317 |
| Tangible assets | 8 | <u>24</u> | <u>29</u> |
| | | 27,934 | 20,346 |
| Current assets | | | |
| Debtors: amounts falling due within one year | 9 | 5,861 | 12,347 |
| Debtors: amounts falling due after more than one year | 10 | 9,773 | 8,818 |
| Cash at bank and in hand | | <u>22</u> | <u>59</u> |
| | | 15,656 | 21,224 |
| Creditors: amounts falling due within one year | 11 | <u>(2,752)</u> | <u>(906)</u> |
| Net current assets | | 12,904 | 20,318 |
| Total assets less current liabilities | | 40,838 | 40,664 |
| Provisions for liabilities and charges | 12 | <u>(30,157)</u> | <u>(32,891)</u> |
| Net assets | | <u>10,681</u> | <u>7,773</u> |
| Capital and reserves | | | |
| Called up share capital | 13 | - | - |
| Profit and loss account | 14 | <u>10,681</u> | <u>7,773</u> |
| Equity shareholder's funds | 15 | <u>10,681</u> | <u>7,773</u> |

The notes on pages 9 to 15 form part of these Financial Statements.

The Financial Statements on pages 7 to 15 were approved by the Board of Directors and were signed on its behalf by:


J.A. Berget
 Director

Date: 23 October 07

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, 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 law and 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 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 two areas where the accounting policies differ from the SORP. These are shown in the section on exploration expenditure (see below).

Exemptions

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.

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

Tangible fixed assets are depreciated on a straight-line basis at rates sufficient to write off the historical cost of individual assets over their estimated useful economic lives. The depreciation periods for the principal categories of assets are as follows:

| | |
|-----------------------|----------------|
| Fixtures and fittings | up to 10 years |
|-----------------------|----------------|

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

Impairment of fixed assets

The impairment is calculated as the difference between the carrying values of income generating units and the estimated value in use 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.

Impairment of fixed assets is recognised in the profit and loss account within operating costs.

Notes to the Financial Statements continued

2 Accounting policies continued

Revenue recognition

Revenue associated with tariff income is recorded when the joint venture facilities are used by a third party. Revenue from tariff income is recognised on the basis of the Company's working interest in the facilities.

Exploration expenditure

The SORP (see 'Basis of preparation and accounting principles' above) 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's 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.

Foreign currencies

Exchange differences on monetary assets and liabilities are taken to the profit and loss account, except that exchange differences on foreign currency net borrowings used to finance foreign currency net investments are also taken to reserves. All other exchange movements are dealt with through the profit and loss account.

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.

3 Turnover

Turnover, which excludes value added tax and is stated gross of royalties, represents amounts receivable from tariff income.

Notes to the Financial Statements continued**4 Operating profit**

The operating profit is stated after charging:

| | 2006 £000 | 2005 £000 |
|---|--------------|--------------|
| Historic cost depreciation charge for the year: | | |
| Tangible owned fixed assets | 7 | 13 |
| Release of provision | <u>4,272</u> | <u>-</u> |

No Directors received emoluments in respect of their services to the Company during the year ended 31 December 2006 (2005: £nil). The Company had no employees during the period (2005: nil). The remuneration of the Auditors, amounting to £2,000, has been borne by BG Energy Holdings Limited in both 2005 and 2006 and has not been recharged to the Company.

5 Net interest payable

| | 2006 £000 | 2005 £000 |
|-------------------------------|----------------|----------------|
| Interest (payable)/receivable | (4) | 6 |
| Unwinding of discount | <u>(1,481)</u> | <u>(1,410)</u> |
| | <u>(1,485)</u> | <u>(1,404)</u> |

Foreign exchange losses or gains relating to financing arrangements are disclosed as interest payable or receivable.

6 Taxation on profit on ordinary activities

Taxation is credited as follows:

| | 2006 £000 | 2005 £000 |
|---|----------------|----------------|
| Current tax | | |
| UK corporation tax at 30% and 50% (2005: 30% and 40%) | | |
| Group relief at 30% and 50% (2005: 30% and 40%) | (1,292) | (2,312) |
| Prior year adjustment | <u>1,164</u> | <u>-</u> |
| Total current tax credit | <u>(128)</u> | <u>(2,312)</u> |
| Deferred tax | | |
| Deferred corporation tax at 30% and 50% (2005: 30% and 40%) | 2,417 | 20 |
| Deferred tax over provision in respect of previous years | (51) | (2) |
| Effect of increased tax rate on opening balances | <u>(3,321)</u> | <u>-</u> |
| Total deferred tax (credit)/charge | <u>(955)</u> | <u>18</u> |
| Total tax (credit)/charge | <u>(1,083)</u> | <u>(2,294)</u> |

Notes to the Financial Statements continued**6 Taxation on profit on ordinary activities continued**

The current tax credit reconciles with the credit calculated using the standard rate of UK corporation tax as follows:

| | 2006 | 2005 |
|--|---------------------|-----------------------|
| | £000 | £000 |
| Profit/(loss) on ordinary activities before tax | <u>1,825</u> | <u>(7,184)</u> |
| Profit/(loss) on ordinary activities multiplied by UK corporation tax at 30% and 50% (2005: 30% and 40%) | 1,113 | (2,292) |
| Effects of: | | |
| Capital allowances in excess of depreciation | (1,038) | (584) |
| Other timing differences | (1,379) | 564 |
| Non-deductible expenses | 12 | - |
| Prior year adjustment | <u>1,164</u> | <u>-</u> |
| Net current tax credit for year | <u>(128)</u> | <u>(2,312)</u> |

The 2006 tax charge incorporates the effect of an increase in supplementary charge on UK North Sea profits from 10% to 20%. Effective 1 April 2008, the applicable rate of UK corporation tax is expected to be 28%. This change does not affect UK North Sea profits.

7 Intangible fixed assets

| | Unproved properties £000 |
|----------------------------|---|
| At 1 January 2006 | 20,317 |
| Additions | 7,593 |
| Well write-offs | <u>-</u> |
| At 31 December 2006 | <u>27,910</u> |

Notes to the Financial Statements continued

8 Tangible fixed assets

| | Fixtures and fittings £000 |
|---------------------------------|----------------------------------|
| Cost | |
| At 1 January 2006 | 123 |
| Additions | <u>2</u> |
| At 31 December 2006 | <u>125</u> |
| Accumulated depreciation | |
| At 1 January 2006 | 94 |
| Charge for the year | <u>7</u> |
| At 31 December 2006 | <u>101</u> |
| Net book value | |
| At 31 December 2006 | <u>24</u> |
| At 31 December 2005 | <u>29</u> |

9 Debtors: amounts falling due within one year

| | 2006 £000 | 2005 £000 |
|---|---------------------|----------------------|
| Amounts owed by group undertakings in respect of taxation | 5,713 | 12,213 |
| Other debtors | 18 | 4 |
| Prepayments and accrued income | <u>130</u> | <u>130</u> |
| | <u>5,861</u> | <u>12,347</u> |

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment.

10 Debtors: amounts falling due after more than one year

| | 2006 £000 | 2005 £000 |
|------------------------|---------------------|---------------------|
| Deferred tax | | |
| At 1 January | 8,818 | 8,836 |
| Profit and loss credit | <u>955</u> | <u>(18)</u> |
| At 31 December | <u>9,773</u> | <u>8,818</u> |

Deferred tax

The deferred taxation asset comprises:

| | 2006 £000 | 2005 £000 |
|--|---------------------|---------------------|
| Accelerated capital allowances | (5,294) | (4,341) |
| Net provisions for liabilities allowable for tax in future years | <u>15,067</u> | <u>13,159</u> |
| | <u>9,773</u> | <u>8,818</u> |

Notes to the Financial Statements continued**11 Creditors: amounts falling due within one year**

| | 2006 | 2005 |
|------------------------------------|---------------------|-------------------|
| | £000 | £000 |
| Amounts owed to group undertakings | 2,625 | 301 |
| Accruals and deferred income | 127 | 605 |
| | <u>2,752</u> | <u>906</u> |

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment.

12 Provisions for liabilities and charges

| | 2006 | 2005 |
|--------------------------------|----------------------|----------------------|
| | £000 | £000 |
| As at 1 January | 32,891 | 31,487 |
| Unwinding of discount | 1,481 | 1,410 |
| Other movement during the year | (4,215) | (6) |
| As at 31 December | <u>30,157</u> | <u>32,891</u> |

The provisions primarily relate to decommissioning costs for the Heather field and are expected to be spread over a 10 year period. The start of the decommissioning is expected to be 31 December 2016 and a discount factor of 5 per cent has been used.

13 Called up share capital

| | 2006 | 2005 |
|---------------------------------|-------------------|-------------|
| | £ | £ |
| Authorised: | | |
| 100 ordinary shares of £1 each | <u>100</u> | <u>100</u> |
| Allotted and fully paid: | | |
| 100 ordinary shares of £1 each | <u>100</u> | <u>100</u> |

14 Reserves

| | Profit and loss account £000 |
|-------------------------------------|---|
| As at 1 January 2006 | 7,773 |
| Transfer to profit and loss account | 2,908 |
| As at 31 December 2006 | <u>10,681</u> |

Notes to the Financial Statements continued**15 Reconciliation of movements in shareholder's funds**

| | 2006 | 2005 |
|--|----------------------|---------------------|
| | £000 | £000 |
| As at 1 January | 7,773 | 12,663 |
| Transfer to / (from) profit and loss account | 2,908 | (4,890) |
| As at 31 December | <u>10,681</u> | <u>7,773</u> |