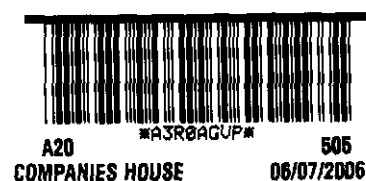




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# BG Energy Holdings Limited Annual Report and Accounts 2005

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## Board of Directors

### **Frank Chapman (53)**

#### **Chairman**

Frank Chapman was appointed Chief Executive of BG Group plc with effect from 23 October 2000, having been appointed to the Board of BG plc in February 1997. He joined British Gas plc in November 1996 as Managing Director, Exploration and Production. He is an engineer and has worked in the oil and gas industry for 30 years. Prior to joining British Gas plc, he spent 22 years with Shell and BP.

### **William Friedrich (57)**

William Friedrich was appointed Deputy Chief Executive of BG Group plc with effect from 23 October 2000. He is also responsible for the Group's portfolio and strategy development. He joined British Gas plc in December 1995 as General Counsel after a 20 year career with Shearman & Sterling, where he became a partner in 1983. Whilst with the firm, he practised as a general corporate lawyer, working mainly on international transactions, and ultimately headed the firm's worldwide project development and project finance practice. He is also a non-executive director of The Royal Bank of Scotland Group plc.

### **Ashley Almanza (43)**

Ashley Almanza was appointed Chief Financial Officer with effect from 1 August 2002. He is responsible for Group finance, tax, treasury, investor relations and internal audit. He joined British Gas plc in 1993 and has held a number of roles including Finance Director of BG International Downstream. He acted as Group Finance Director from October 2000 to January 2001 before he was appointed Group Financial Controller. Prior to joining British Gas plc he trained as a chartered accountant, working in South Africa and London.

### **Charles Bland (56)**

Charles Bland joined BG plc in 1999. He is responsible for government and public affairs, brand and marketing, communications, corporate responsibility policy and community affairs. He was appointed in 2002 having previously been President, BG Kazakhstan, and Vice President, Government Affairs. Before joining BG he worked in UK government, holding various posts in the Ministry of Defence.

### **Jørn Berget (53)**

Jørn Berget joined BG Group plc in November 2004 from Shell, where he was, most recently, production director for all E&P assets in the USA and South America, in addition to being a board member of Enventure Technologies and Enterprise Products GP, LLC. He has 29 years' experience covering all aspects of the E&P business, with assignments in Norway, Argentina, the Netherlands, Peru, Oman, Brunei, the UK and USA. He is responsible for providing BG Group's corporate technical assurance and services, continuing development of strategic technical and commercial capabilities.

### **Mark Carne (47)**

Mark Carne joined BG Group plc in May 2005 from Shell, where he held a number of senior positions, most recently managing director of Brunei Shell Petroleum and country chairman for Shell companies in Brunei. Prior to this role, he was the asset director responsible for Shell's UK North Sea oil production. His international experience includes various general management roles in the UK, Holland and Oman covering operations, engineering, commercial and business development.

### **Peter Duffy (44)**

Peter Duffy joined BG Group plc in 2001, when he was appointed to his current position with responsibility for all matters relating to human resources strategy and policy. He has extensive international human resource management experience, particularly in the area of organisation development, performance and change management. He previously worked for TRW Inc., LucasVarity plc and British Aerospace plc.

### **Stuart Fysh (49)**

Stuart Fysh joined BG plc in 1998 and was appointed Executive Vice-President in November 2003 with responsibility for the Group's activities in Egypt, Tunisia, Mauritania, Nigeria and Libya and development activities elsewhere in the region. He was appointed Vice-President BG Egypt in June 2001 and prior to that he was Vice-President BG Thailand, Singapore and Malaysia. He previously spent 17 years with the mining, steel and petroleum conglomerate BHP, where his roles included commercial, business development, corporate planning and research & development. He has lived and worked in Australia, Pakistan, India, Singapore and Egypt.

### **Martin Houston (48)**

Martin Houston joined British Gas in 1983 and was appointed Executive Vice President (EVP) in 2000. He was appointed to his current position in September 2003 and is based in Houston. Prior to his first EVP appointment in 2000, he held a number of technical and commercial posts predominantly with an international focus. He played a leading role in the development of the LNG industry in Trinidad and was chairman of Atlantic LNG from 1996 to 2000. His most recent positions have included President and General Manager of BG Trinidad and Tobago, Director of LNG and Vice President of Strategy and Portfolio Development. He is a non-executive director of Severn Trent Plc and a fellow of the Geological Society of London.

### **Stefan Ricketts (39)**

Stefan Ricketts joined BG plc in 1999 and was appointed General Counsel in September 2005, with responsibility for the legal affairs of the Group. Prior to becoming General Counsel, he was Head of the Legal Department at BG Group, a role he has held since 2002. Before joining BG, he was with the international law firm, Herbert Smith, and worked in London, the Middle East and Asia.

### **Rick Waddell (46)**

Rick Waddell joined BG Group plc in 2002 when he was appointed to his current position. Based in São Paulo, he is responsible for all upstream and downstream activities in South America, including Comgas in São Paulo and MetroGAS in Buenos Aires. He is a former senior vice president of Enron Corporation for Latin America and was regional logistics manager for South America with Wal-Mart International.

### **David Roberts (45)**

David Roberts was Executive Vice President & Managing Director for Asia and the Middle East during the year ended 31 December 2005 and has since resigned from this position.

# Directors' report

The Directors present their report and the audited Financial Statements for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The Company is the intermediate holding company for all subsidiaries and associated companies within the BG Group.

BG Energy Holdings is an integrated gas company with activities across the whole range of gas operations, from exploration to the final consumer. Broadly these activities are:

## EXPLORATION AND PRODUCTION (E&P)

E&P comprises exploration, development, production and marketing of hydrocarbons with a focus on gas.

## LIQUEFIED NATURAL GAS (LNG)

The LNG business combines the development and use of LNG import and export facilities with the purchase, shipping and sale of LNG and regasified natural gas.

## TRANSMISSION AND DISTRIBUTION (T&D)

T&D develops, owns and operates major pipelines and distribution networks, and supplies gas through these to the end customer.

## POWER GENERATION (POWER)

Power develops, owns and operates natural gas-fired power generation plants around the world.

## BUSINESS OVERVIEW

Strong performances across the Group's operating segments underpinned a 73% increase in total earnings for 2005 as compared with 2004.

E&P volumes increased 10% in 2005 compared with 2004. The increase reflected production growth from the Karachaganak field in Kazakhstan and new production from the Scarab Saffron field in Egypt. The Group completed the disposal of its share in the North Caspian Sea PSA in April 2005.

Three new trains of LNG came onstream in 2005, Trains 1 and 2 in Egypt and Train 4 in Trinidad and Tobago. The first expansion phase of Lake Charles in the USA was completed in the third quarter of 2005. During the period the Group was responsible for meeting just over 1% of the US daily gas demand. In 2005, 4.1 million tonnes of LNG was produced, an increase of 28% compared with 2004.

The Group's T&D businesses had another strong year in 2005, with increased number of customers and profitability. MetroGAS, in Argentina, was deconsolidated from the Group at the end of 2005 as a result of financial restructuring of MetroGAS' parent company GASA.

Performance in the Power segment was largely unchanged from 2004.

## RESULTS AND DIVIDEND

The profit on ordinary activities before taxation was £2 532m (2004 £1 508m). An interim dividend of £900m was proposed and paid during 2005 (2004:£569m); no final dividend has been proposed. Further details are set out in the Financial Statements, pages 8 to 58.

## SIGNIFICANT EVENTS SUBSEQUENT TO 31 DECEMBER 2005

There are no significant events affecting the Company or its subsidiaries which have occurred since the end of the financial year.

## SHARE CAPITAL

The authorised share capital of the Company is 5 000 000 000 ordinary shares of £1 each.

## SHAREHOLDERS

The Company is a direct wholly-owned subsidiary undertaking of BG Group plc. BG Group plc is a public limited company registered in England & Wales and listed on the London and New York Stock Exchange.

## DIRECTORS AND OFFICERS

The names of the Directors of BG Energy Holdings and their biographical details are given on page 1.

Peter Hughes resigned as a Director of the Company on 30 December 2005. David Roberts resigned as a Director of the Company on 10 March 2006.

Stefan Ricketts and Mark Carne were appointed as Directors of the Company on 3 October 2005.

## DIRECTORS' REMUNERATION

The aggregate emoluments paid to Directors during the period in respect of qualifying services was £4 765 305 (2004 £4 156 491). This figure excludes amounts paid to Frank Chapman, William Friedrich and Ashley Almanza whose emoluments are payable by BG Group plc, the parent company. Details of the emoluments paid to them during the period are set out in the Annual Report and Accounts of that company.

The Company is contributing to a defined benefit pension scheme for all Directors except Frank Chapman, Ashley Almanza and William Friedrich. Pension contributions in respect of these Directors are paid by BG Group plc, the parent company.

The Chairman's emoluments for the year ended 31 December 2005 were £nil. Of the aggregate amount of emoluments paid to Directors during the period, £696 641 was paid to the highest paid Director. The accrued pension of the highest paid Director as at 31 December 2005 was £117 643 per annum.

## DIRECTORS' INTERESTS

Frank Chapman, William Friedrich and Ashley Almanza are also Directors of the parent company, BG Group plc, and details of their interests in the shares of BG Group plc appear in that company's Annual Report and Accounts for 2005, including their interests under the BG Group Long Term Incentive Scheme, Share Option Scheme and Sharesave Scheme. These interests are therefore not included in the tables below.

None of the Directors (or any person connected with them) had during the year ended 31 December 2005 an interest in shares or debentures of the Company (including any right to subscribe for shares or debentures in the Company).

**DIRECTORS' INTERESTS IN ORDINARY SHARES OF BG GROUP PLC**

The Directors' beneficial interests in ordinary shares of BG Group plc at the end of the financial year were as follows:

	Beneficial interests ordinary shares(a)	
	As at 1 Jan 2005*	As at 31 Dec 2005
Jørn Berget (appointed 19 January 2005)	—	183
Charles Bland	23 934	92 429
Mark Carne (appointed 3 October 2005)	—	—
Peter Duffy	9 350	101 924
Stuart Fysh	15 549	57 808
Martin Houston	82 167	173 361
Stefan Ricketts (appointed 3 October 2005)	24 147	34 276
David Roberts	1 659	2 763
Rick Waddell	—	51 071

\* or at date of appointment if later.

(a) Beneficial interest including shares acquired pursuant to the BG Group Employee Profit Sharing Scheme and the BG Group Share Incentive Plan (formerly called the BG Group All-Employee Share Ownership Plan).

**DIRECTORS' INTERESTS IN SHARES UNDER THE BG GROUP LONG TERM INCENTIVE SCHEME**

	Notional allocations of shares as at 1 Jan 2005*	Notional allocations of shares made during the year	Number of shares added through dividend reinvestment	Number of shares forfeited at end of performance period	Shares vested during the year	Notional allocations of shares as at 31 Dec 2005
Jørn Berget	200 000	188 259	—	—	—	388 259
Charles Bland	486 940	148 625	228	62 684	109 964	463 145
Mark Carne	254 919	—	—	—	—	254 919
Peter Duffy	535 041	148 625	630	62 684	155 033	466 579
Stuart Fysh	415 707	188 259	198	20 818	50 817	532 529
Martin Houston	609 974	188 259	506	70 647	153 113	574 979
Stefan Ricketts	250 360	—	144	—	30 346	220 158
David Roberts	489 086	188 259	—	—	—	677 345
Rick Waddell	607 586	188 259	—	60 626	80 363	654 856

\* or at date of appointment if later.

**DIRECTORS' INTERESTS IN OPTIONS OVER ORDINARY SHARES OF BG GROUP PLC**

None of the Directors hold options under BG Group's Executive Share Option Scheme and no grants have been made under that scheme since 1994. The number of share options held by the Directors under the BG Group Sharesave Scheme were as follows:

	Options as at 1 Jan 2005*	Exercised in year	Granted in year	Lapsed in year	Options as at 31 Dec 2005	Exercise price	Earliest normal exercise date	Expiry date
Jørn Berget	—	—	4 183	—	4 183	£3.95	Nov 10	May 11
Charles Bland	7 368	—	—	—	7 368	£2.29	Mar 06	Sep 06
Mark Carne	4 183	—	—	—	4 183	£3.95	Nov 10	May 11
Peter Duffy	3 458	—	—	—	3 458	£2.74	Nov 07	May 08
Stuart Fysh	7 368	—	—	—	7 368	£2.29	Mar 06	Sep 06
Martin Houston	6 031	—	—	—	6 031	£2.74	Nov 09	May 10
Stefan Ricketts	3 458	—	—	—	3 458	£2.74	Nov 07	May 08
David Roberts	1 383	—	—	—	1 383	£2.74	Nov 07	May 08
Rick Waddell	—	—	—	—	—	—	—	—

\* or at date of appointment if later.

## Directors' report continued

### DIRECTORS' INTERESTS IN OPTIONS UNDER THE BG GROUP COMPANY SHARE OPTION SCHEME

The number of share options held by the Directors under the BG Group Company Share Option Scheme was as follows:

	Options held at 1 Jan 2005	Exercised in Year	Options granted during the year	Lapsed in the year	Options as at 31 Dec 2005	Exercise price	Earliest normal exercise date	Expiry date
Jørn Berget	125 000	—	—	—	125 000	£3.5383	Nov 07	Nov 14
	—	—	171 199	—	171 199	£4.9942	Sep 08	Sep 15
Charles Bland	24 934	24 934	—	—	—	£2.6850	Nov 00	Nov 10
	33 848	33 848	—	—	—	£2.5634	Nov 04	Nov 11
	114 756	—	—	—	114 756	£2.5175	Sep 05	Sep 12
	103 974	—	—	—	103 974	£2.7050	Sep 06	Sep 13
	105 000	—	—	—	105 000	£3.4733	Sep 07	Sep 14
	—	—	135 157	—	135 157	£4.9942	Sep 08	Sep 15
Mark Carne	—	—	45 250	—	45 250	£4.3883	Jun 08	Jun 15
	—	—	171 199	—	171 199	£4.9942	Sep 08	Sep 15
Peter Duffy	43 972	43 972	—	—	—	£2.5925	Mar 04	Feb 11
	97 526	97 526	—	—	—	£2.5634	Nov 04	Nov 11
	114 756	14 756	—	—	100 000	£2.5175	Sep 05	Sep 12
	106 284	—	—	—	106 284	£2.7050	Sep 06	Sep 13
	105 000	—	—	—	105 000	£3.4733	Sep 07	Sep 14
	—	—	135 157	—	135 157	£4.9942	Sep 08	Sep 15
Stuart Fysh	19 553	11 173	—	—	8 380	£2.6850	Nov 03	Nov 10
	39 010	—	—	—	39 010	£2.5634	Nov 04	Nov 11
	44 687	—	—	—	44 687	£2.5175	Sep 05	Sep 12
	42 698	—	—	—	42 698	£2.7050	Sep 06	Sep 13
	55 000	—	—	—	55 000	£2.7850	Dec 06	Dec 13
	125 000	—	—	—	125 000	£3.4733	Sep 07	Sep 14
	—	—	171 199	—	171 199	£4.9942	Sep 08	Sep 15
Martin Houston	39 106	—	—	—	39 106	£2.6850	Nov 03	Nov 10
	97 526	—	—	—	97 526	£2.5634	Nov 04	Nov 11
	130 685	—	—	—	130 685	£2.5175	Sep 05	Sep 12
	125 914	—	—	—	125 914	£2.7050	Sep 06	Sep 13
	125 000	—	—	—	125 000	£3.4733	Sep 07	Sep 14
	—	—	171 199	—	171 199	£4.9942	Sep 08	Sep 15
Stefan Ricketts	15 083	7 170	—	—	7 913	£2.6850	Nov 03	Nov 10
	28 312	16 000	—	—	12 312	£2.5634	Nov 04	Nov 11
	32 770	—	—	—	32 770	£2.5175	Sep 05	Sep 12
	29 889	—	—	—	29 889	£2.7050	Sep 06	Sep 13
	21 377	—	—	—	21 377	£3.4733	Sep 07	Sep 14
	—	—	135 137	—	135 137	£4.9942	Sep 08	Sep 15
David Roberts	84 835	—	—	—	84 835	£2.3575	Feb 06	Feb 13
	115 526	—	—	—	115 526	£2.7050	Feb 06	Feb 13
	125 000	—	—	—	125 000	£3.4733	Sep 07	Sep 14
	—	—	171 199	—	171 199	£4.9942	Sep 08	Sep 15
Rick Waddell	84 727	84 727	—	—	—	£3.0800	Apr 05	Apr 12
	110 486	110 486	—	—	—	£2.5175	Sep 05	Sep 12
	115 796	—	—	—	115 796	£2.7050	Sep 06	Sep 13
	125 000	—	—	—	125 000	£3.4733	Sep 07	Sep 14
	—	—	171 199	—	171 199	£4.9942	Sep 08	Sep 15

Full details of all employee share and option schemes can be found in the BG Group Annual Report and Accounts 2005.

## RESEARCH AND DEVELOPMENT

Expenditure on research and development is made to enable the Group to continuously build and develop its core competencies in gas chain technologies. In this way, the Group maintains its ability to leverage superior value from its ongoing business operations and new opportunities. Consolidated expenditure on research and development in 2005 was £7m (2004 £7m; 2003 £8m).

## EMPLOYEES

The Group had 5 386 employees worldwide as at 31 December 2005 of which 3 945 were based outside the UK. Employees are informed about significant business issues and the Group's performance using electronic mail, the Company's intranet and in-house publications, as well as videos, DVDs and briefing meetings at each business location. When appropriate, consultation with employee and union representatives also takes place.

The Group takes the issues of equality and diversity seriously and encourages its partners to do likewise. By using the talent and skills available in all groups and communities in the countries in which it operates, the Group is able to build a strong foundation for the lasting success of its business. This is achieved by using appropriate recruitment and selection techniques, ensuring quality of employment opportunity and equal access to development opportunities.

The Group 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. Equally, the Group encourages its partners to have a similar approach to these issues where Group policies are not able to be implemented directly.

Employees are encouraged to become shareholders in the Company's parent company, BG Group plc ("BG Group") and a significant number are members of BG Group's Sharesave Scheme and Share Incentive Plan (SIP).

## COMMUNITY INVOLVEMENT

During 2005, the Group donated £0.6m to registered charities in the UK. Adding contributions of cash, employee time and equipment to community groups in the UK (in accordance with the London Benchmarking Group model), this figure rises to £0.8m.

Under BG Group's Statement of Business Principles, it is the Group's policy not to make political donations. No donations were made in the EU for political purposes, as defined in Section 347A of the Companies Act 1985. For further information on BG Group's social investment, see page 33 of BG Group's Annual Report and Accounts for 2005.

## FINANCIAL INSTRUMENTS

The Group uses certain financial instruments to manage financial risk. Further details of these instruments and details of the Group's financial risk management objectives and policies are set out on pages 10 to 13.

## 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 Group had 24 days' purchases outstanding at 31 December 2005 based on the average daily amount invoiced by suppliers during the year.

## ANNUAL GENERAL MEETING

The Company has resolved to dispense with the obligation to hold Annual General Meetings in accordance with Section 366A of the Companies Act 1985.

## AUDITORS

The Company has resolved to dispense with the obligation to appoint auditors annually in accordance with Section 386 of the Companies Act 1985.

## GOING CONCERN

The accounts have been prepared on the going concern basis since the Directors are satisfied that the Company's activities are sustainable for the foreseeable future.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR PREPARING THE FINANCIAL STATEMENTS

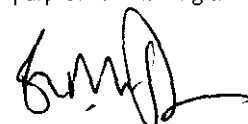
The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group at the end of the financial year and of the profit or loss of the Company and the Group for the financial year.

The Directors consider that, in preparing the Financial Statements on pages 8 to 68, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and all applicable accounting standards have been followed. 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 of the Group and which enable 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 Group and to prevent and detect fraud and other irregularities and have adopted a control framework for application across the Group.

The Directors, having prepared the Financial Statements, have asked the auditors to take whatever steps and to undertake whatever inspections they consider to be appropriate for the purposes of enabling them to give their audit report.



By order of the Board  
Ben Mathews  
Company Secretary

28 June 2006

Registered office:  
100 Thames Valley Park Drive  
Reading  
Berkshire RG6 1PT

Registered in England & Wales No. 3763515

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# Independent Auditors' report to the shareholders of BG Energy Holdings Limited

We have audited the Group Financial Statements of BG Energy Holdings Limited for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated balance sheet, the group cash flow statement, the consolidated statement of recognised income and expense and the related notes. These Group Financial Statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company Financial Statements of BG Energy Holdings Limited for the year ended 31 December 2005.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Directors' responsibilities for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group 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 Group Financial Statements give a true and fair view and whether the Group Financial Statements have been 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 Group Financial Statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We read Directors' Report contained in the Annual Report and consider whether it is consistent with the audited Group Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group Financial Statements. Our responsibilities do not extend to any other information.

## **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 Group Financial Statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group Financial Statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group Financial Statements.

## **OPINION**

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended; and
- the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
1 Embankment Place  
London WC2N 6RH  
28 June 2006

The maintenance and integrity of the BG Group's website is the responsibility of the BG Group directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Group Financial Statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Principal accounting policies

## BASIS OF PREPARATION

The consolidated financial statements ('Financial Statements') for the year ended 31 December 2005 have been prepared on a voluntary basis in accordance with International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC) interpretations. These include standards and interpretations endorsed by the EU. In addition, the Financial Statements have been prepared in accordance with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Financial Statements have been prepared using historical cost principles except that, as disclosed in the accounting policies below, certain items, including derivatives, are measured at fair value.

The financial statements of the Company are still prepared under UK GAAP. Those financial statements and the principal accounting policies adopted in relation to those statements are set out on page 61. The auditors report for the Company's financial statements is on page 60.

The preparation of the Group's consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the Financial Statements and the reported revenues and expenses during the reporting period. Actual results could differ from these estimates. BG Energy Holdings believes that the accounting policies associated with exploration expenditure, depreciation, decommissioning, impairments, financial instruments including commodity contracts and revenue recognition are the critical policies where changes in estimates and assumptions could have a significant impact on the Financial Statements. These are discussed on pages 8 to 13.

BG Energy Holdings adopted IFRS for its Group Financial Statements from 1 January 2005. In accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards, BG Energy Holdings is required to explain how the transition from UK GAAP to IFRS has affected its financial position, financial performance and cash flows. The financial information provided in note 32, page 52 addresses this requirement. IFRS 1 allows exemptions from the application of certain IFRSs to assist companies with the transition process. The exemptions used by BG Energy Holdings are set out in note 32. As permitted by IFRS 1, the comparative information for the years ended 31 December 2003 and 31 December 2004 has not been prepared in accordance with IAS 32 and IAS 39. The financial information provided in respect of financial instruments for these years is based on BG Energy Holdings' accounting policy under UK GAAP and does not take into account the requirements of IAS 32 and IAS 39. The adjustments made to the balance sheet as at 1 January 2005 on adoption of IAS 32 and IAS 39 are set out on page 56.

The gas and oil disclosure requirements of the Statement of Recommended Practice issued by the Oil Industry Accounting Committee entitled 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' have been omitted as they are shown in the BG Group plc Annual Report and Accounts.

## BASIS OF CONSOLIDATION

The accounts comprise a consolidation of the accounts of the Company and its subsidiary undertakings and incorporate the results of its share of jointly controlled entities and associates using the equity method of accounting. Consistent accounting policies have been used to prepare the consolidated Financial Statements.

Most of BG Energy Holdings' Exploration and Production activity is conducted through jointly controlled operations. BG Energy Holdings accounts for its own share of the assets, liabilities and cash flows associated with these jointly controlled operations, using the proportional consolidation method.

The results of undertakings acquired or disposed of are consolidated from or to the date when control passes to or from the Company.

## PRESENTATION OF RESULTS

The Group presents its results in the income statement to separately identify the contribution of disposals and certain re-measurements in order to provide readers with a clear and consistent presentation of the underlying operating performance of the Group's ongoing business.

## SEGMENT REPORTING

The Group's primary format for segment reporting is business segments and the secondary format is geographical segments. This reflects the fact that the risks and returns of the Group's operations are primarily based on its business activities rather than the geographical location of the Group's operations.

## BUSINESS COMBINATIONS AND GOODWILL

In the event of a business combination, fair values are attributed to the net assets acquired. Goodwill, which represents the difference between the purchase consideration and the fair value of the net assets acquired, is capitalised and subject to an impairment review at least annually or more frequently if events or changes in circumstances indicate that the goodwill may be impaired. Goodwill is treated as an asset of the relevant entity to which it relates, including foreign entities. Accordingly, it is re-translated into pounds Sterling at the closing rate of exchange at each balance sheet date.

## PROPERTY, PLANT AND EQUIPMENT EXCLUDING DECOMMISSIONING ASSETS

All property, plant and equipment is carried at depreciated historical cost. Additions represent new or replacements of specific components of property, plant and equipment.

Contributions received towards the cost of property, plant and equipment (including government grants) are included in creditors as deferred income and credited to the income statement over the life of the assets. Finance costs associated with borrowings used to finance major capital projects are capitalised up to the point of commissioning.

## DEPRECIATION AND AMORTISATION

Freehold land is not depreciated. Other property, plant and equipment, except exploration and production assets, is depreciated on a straight-line basis at rates sufficient to write off the historical cost less residual value of individual assets over their estimated useful economic lives. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	up to 50 years
Mains, services and meters	up to 60 years
Plant and machinery	5 to 30 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 for facilities. Changes in these estimates are dealt with prospectively.

Asset lives are kept under review and complete asset life reviews are conducted periodically. Residual values applied to certain non-exploration and production assets are reassessed annually.

*Intangible assets in respect of contractual rights are recognised at cost less amortisation. They are amortised on a straight-line basis over the term of the related contracts.*

#### **IMPAIRMENT OF NON-CURRENT ASSETS**

Any impairment of non-current assets is calculated as the difference between the carrying values of cash generating units (including associated goodwill) 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.

BG Energy Holdings uses long-term assumptions to determine the net present value of future cash flows for use in impairment reviews unless, by exception, short-term market assumptions are more appropriate to the asset under review. Particular assumptions that impact the calculations are commodity prices, exchange rates and discount rates.

#### **ASSETS HELD FOR SALE**

*When an asset or disposal group's carrying value will be recovered principally through a sale transaction rather than through continuing use, it is classified as held for sale and stated at the lower of carrying value and fair value less costs to sell. No depreciation is charged in respect of non-current assets classified as held for sale.*

#### **INVENTORIES**

Inventories, including inventories of gas and oil held for sale in the ordinary course of business, are stated at weighted average historical cost less provision for deterioration and obsolescence or, if lower, net realisable value.

#### **REVENUE RECOGNITION**

BG Energy Holdings recognises revenue when the significant risks and rewards of ownership of any goods and services have been transferred.

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

Sales of liquefied natural gas (LNG) and associated products are recognised when title passes to the customer as the product passes the delivery point at the loading port or the tailgate of the regasification terminal. LNG shipping revenue is recognised over the period of the relevant contract.

Revenue from gas transmission and distribution activities is recognised in the same period in which the related volumes are delivered to the customer.

Power generation revenues are recognised based on the availability status of the power station to produce at a given point in time. Revenue associated with the costs of actual production is recognised whenever power is generated.

All other revenue is recognised when title passes to the customer.

#### **EXPLORATION EXPENDITURE**

BG Energy Holdings uses the 'successful efforts' method of accounting for exploration expenditure. Exploration expenditure, including licence acquisition costs, is capitalised as an intangible 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 property, plant and equipment and depreciated on a unit of production basis. Expenditure deemed to be unsuccessful is written off to the income statement. Exploration expenditure is assessed for impairment when facts and circumstances suggest that its carrying amount exceeds its recoverable amount. For the purposes of impairment testing, exploration and production assets may be aggregated into appropriate cash generating units based on considerations including geographical location, the use of common facilities and marketing arrangements.

An alternative policy would be the 'full cost' method under which all costs associated with exploring for and developing gas and oil reserves within a cost pool are capitalised and written off against income from subsequent production. While the reported profit under each method will be the same over the total life of the entity, profit is generally recognised earlier under the full cost method.

Capitalised exploratory well costs held for more than one year relate to offshore and frontier areas where further work is being undertaken on geological and geophysical assessment, development design and commercial arrangements. For additional information on capitalised exploration expenditure within intangible assets see note 12, page 32.

#### **DECOMMISSIONING COSTS**

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

*When this provision gives access to future economic benefits, an asset is recognised and then subsequently depreciated in line with the life of the underlying producing field, otherwise the costs are charged to the income statement. The unwinding of the discount on the provision is included in the income statement within finance costs. Any changes to estimated costs or discount rates are dealt with prospectively.*

The measurement of decommissioning provisions involves the use of estimates and assumptions such as the discount rate used to determine the net present value of the liability. The estimated cost of decommissioning is based on engineering estimates and reports from independent advisers. In addition, the payment dates of expected decommissioning costs are uncertain and are based on economic assumptions surrounding the useful economic lives of the fields concerned.

#### **FOREIGN CURRENCIES**

On consolidation, assets and liabilities denominated in foreign currencies are translated into pounds Sterling at closing rates of exchange. Trading results of overseas subsidiary undertakings, jointly controlled entities and associates are translated into pounds Sterling at average rates of exchange. Differences resulting from the retranslation of the opening net assets and the results for the year are taken to reserves. Any differences arising from 1 January 2003, the date of transition to IFRS, are presented as a separate component of equity.

## Principal accounting policies continued

Exchange differences on monetary assets and liabilities are taken to the income statement, with the exception of exchange differences on monetary items that form part of a net investment in a foreign operation. These differences are taken to reserves until the related net investment is disposed of. All other exchange movements are dealt with through the income statement.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits with a maturity of three months or less and other short-term highly liquid investments that are readily convertible to known amounts of cash.

### DEFERRED TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### LEASES

Assets held under finance leases are capitalised and included in property, plant and equipment at the lower of fair value and the present value of the minimum lease payments as determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are determined at the inception of the lease and included within borrowings. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period.

Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term.

### FINANCIAL INSTRUMENTS (FROM 1 JANUARY 2005)

Derivative financial instruments are initially recognised and subsequently measured at fair value.

Derivative financial instruments utilised by the Group's treasury operations include interest rate swaps, foreign currency swaps, cross currency interest rate swaps, forward rate agreements, and forward exchange contracts.

Certain derivative financial instruments are designated as hedges in line with the Group's risk management policies. Gains and losses arising from the re-measurement of these financial instruments are either recognised in the income statement or deferred in equity depending on the type of hedging relationship. When a hedging instrument is sold or expires, any cumulative gain or loss previously recognised in equity remains in equity until the hedged transaction is recognised in the income statement. Movements in the fair value of derivative financial instruments not included in hedging relationships are recognised in the income statement. Loans held by the Group are initially measured at fair value and subsequently carried at amortised cost except where they form the underlying transaction in an effective fair value hedge relationship when the carrying value is adjusted to reflect fair value movements associated with the hedged risks. Such adjustments are reported in the income

statement. Other financial instruments such as receivable balances are measured at amortised cost less impairments.

### FINANCIAL INSTRUMENTS (TO 31 DECEMBER 2004)

Derivatives used for hedging are accounted for on an accruals basis. Termination payments made or received in respect of derivatives are spread over the shorter of the life of the original instrument or the life of the underlying exposure in cases where the underlying exposure continues to exist. Where the underlying exposure ceases to exist, any termination payments are taken to the income statement.

Interest differentials on derivative instruments are recognised by adjusting the net interest charge. Premiums or discounts on derivative instruments are amortised over the shorter of the life of the instrument or the underlying exposure. Currency swap agreements and forward exchange contracts are retranslated at the rates ruling in the agreements and contracts. Resulting gains or losses are offset against foreign exchange gains or losses on the related borrowings or, where the instrument is used to hedge a committed future transaction, are deferred until the transaction occurs.

### COMMODITY INSTRUMENTS (FROM 1 JANUARY 2005)

Within the ordinary course of business the Group 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 receipt or delivery of the commodity in accordance with the Group's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS 39.

Certain long-term gas sales contracts operating in the UK gas market have terms within the contract which constitute written options, and accordingly they fall within the scope of IAS 39. In addition, commodity instruments are used to manage certain price exposures in respect of optimising the timing of gas sales associated with contracted storage and pipeline capacity. These contracts are recognised on the balance sheet at fair value with movements in fair value recognised in the income statement.

The Group uses various commodity based derivative instruments to manage some of the risks arising from fluctuations in commodity prices. Such contracts include physical and net settled forwards, futures, swaps and options. Where these derivatives have been designated as cash flow hedges of underlying commodity price exposures, certain gains and losses attributable to these instruments are deferred in equity and recognised in the income statement when the underlying hedged transaction crystallises.

All other commodity contracts within the scope of IAS 39 are measured at fair value with gains and losses taken to the income statement.

Gas contracts and related derivative instruments associated with the physical purchase and re-sale of third-party gas are presented on a net basis within other operating income.

### COMMODITY INSTRUMENTS (TO 31 DECEMBER 2004)

The Group 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 particular gas price exposures are deferred and recognised in the income statement when the underlying hedged transaction crystallises. All other gains and losses relating to net-settled commodity derivatives are taken to the income statement 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 E&P's costs.

#### **PENSIONS**

The amount recognised on the balance sheet in respect of liabilities for defined benefit pension and post-retirement benefit plans represents the present value of the obligations offset by the fair value of plan assets and excluding actuarial gains and losses not recognised.

*The cost of providing retirement pensions and related benefits is charged to the income statement over the periods benefiting from the employees' services. Current service costs are reflected in operating profit and financing costs are reflected in finance costs in the period in which they arise. Actuarial gains and losses which exceed the greater of 10% of plan assets or plan obligations are spread over the average remaining service lives of the employees participating in the plan and are reflected in operating profit.*

#### **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 made by BG Energy Holdings' parent company, BG Group plc. *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 reflected in the fair value of the share. Non 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.*

#### **RESEARCH AND DEVELOPMENT AND ADVERTISING EXPENDITURE**

All research and advertising expenditure is written off as incurred.

Development expenditure is written off as incurred unless it meets the recognition criteria set out in IAS 38 'Intangible Assets'. Where the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives

# Treasury policy and financial instruments

## TREASURY POLICY

All funding is undertaken in accordance with policies and/or parameters approved by the Finance Committee of the Board of BG Group plc (Finance Committee). BG Group's principal borrowing entities are: BG Energy Holdings Limited (BGEH), including wholly-owned subsidiary undertakings of BGEH, the majority of whose borrowings are guaranteed by BGEH (collectively BGEH Borrowers); Comgas and Gujarat Gas, which conduct their borrowing activities on a stand-alone basis and whose borrowings are non-recourse to other members of the Group.

The Group's principal treasury risks are those risks associated with refinancing, interest rates, foreign exchange and counterparty credit. These risks are all managed in accordance with policies approved by the Finance Committee. The use of derivative financial instruments is controlled by policy guidelines set by the Board of BG Group plc. The Group's principal treasury policies are summarised below:

## FINANCING RISK

The Group's financing costs may be significantly affected by interest rate volatility. The Group is also exposed to liquidity risks, including risks associated with refinancing borrowings as they mature, the risk that borrowing facilities are not available to meet cash requirements and the risk that financial assets cannot readily be converted to cash without loss of value. Failure to manage financing risks could have a material impact on the Group's cash flow, balance sheet and financial position.

The Group's interest rate management policy requires that the interest rate obligations of BGEH Borrowers be substantially floating, and sets limits on the maximum amount of fixed rate exposure from time to time.

The Group manages liquidity risk by maintaining adequate committed borrowing facilities and holding its financial assets primarily in short-term, highly liquid investments that are readily convertible to known amounts of cash. Refinancing risk is managed by limiting the amount of borrowing that matures within any specific period.

The maturity profile of the Group's borrowings appears in note 20, page 37.

## EXCHANGE RATE RISK

The Group's cash flow, income statement and balance sheet are reported in pounds Sterling and may be significantly affected by fluctuations in exchange rates. A substantial proportion of the Group's business activity is conducted in US Dollars and the Group holds substantial US Dollar-denominated assets. The Group mitigates its exposure to its holding of US Dollar-denominated assets by borrowing in, or swapping the majority of its borrowing into, US Dollars. In general, the Group does not hedge US Dollar-denominated transactions, although it may do so for specific transactions, as authorised by the Finance Committee.

BG Energy Holdings estimates that in 2006, other factors being constant, a 10 cent strengthening (or weakening) in the US Dollar would increase (or decrease) operating profit by approximately £120 million to £140 million.

The Group's net balance sheet exposures to currencies other than the US Dollar or pound Sterling principally comprise exposure to the Brazilian Real and the Indian Rupee. These net exposures are managed on a case-by-case basis. The Group mitigates its exposure to transactions in currencies other than pounds Sterling or US Dollars by hedging certain expected cash flows into pounds Sterling or US Dollars. Subsidiary undertakings which borrow without recourse to the Group are generally required to borrow in, or swap borrowing into, their respective functional currency.

## CREDIT RISK

BG Energy Holdings is exposed to credit risks, being the loss that would be recognised if counterparties failed to or are unable to meet their payment obligations. These risks may arise in certain agreements in relation to amounts owed for physical product sales, the use of derivative instruments and the investment of surplus cash balances.

The Group's credit risks are managed under policies approved by: the Finance Committee in relation to Treasury transactions; the Energy Trading Risk Committee for trading transactions; and under authorities approved by the Board for specific investment decisions.

The Group analyses each counterparty's financial condition prior to entering into trading sales agreements, swaps, futures and options contracts. Credit exposures are monitored for individual transaction and concentration risk. Where multiple transactions are undertaken with a single counterparty, or group of related counterparties, the Group may enter into a netting arrangement to reduce the Group's exposure to credit risk. Currently the Group makes wide use of standard International Swaps and Derivative Association (ISDA) documentation. This provides netting of transactions covered by the specific ISDA documentation. For commodity trading, the Group seeks to put in place bespoke master netting agreements.

## FINANCIAL INSTRUMENTS

As part of its business operations, the Group uses derivative financial instruments (derivatives) in order to manage exposure to fluctuations in interest rates and exchange rates. The Group enters into interest rate swaps or forward rate agreements to manage the composition of floating and fixed rate debt. The Group enters into forward exchange and currency swaps to hedge certain foreign currency cash flows and to adjust the currency composition of its assets and liabilities. Certain agreements are combined foreign currency and interest swap transactions, described as cross currency interest rate swaps. The Group's policy is not to use interest rate and exchange rate derivatives for speculative purposes.

Derivatives are recognised at fair value on the balance sheet.

Certain derivatives are designated as hedges under IAS 39, in line with the Group's risk management policies. Derivatives used for hedging are measured at fair value. Gains and losses arising from the re-measurement of these derivatives are either recognised in the income statement or deferred in equity, depending on the type of hedge. Any hedge ineffectiveness is recognised immediately in the income statement. Movements in fair value of derivatives not formally included in hedging relationships are recognised in the income statement.

The Group calculates the fair value of medium- and long-term debt and derivatives by using market valuations where available or, where not available, by discounting all future cash flows by the market yield curve at the balance sheet date.

The Group utilises a sensitivity analysis technique to evaluate the effect that changes in relevant rates or prices will have on the market value of debt and derivative instruments. As at 31 December 2005, the potential change in the fair value of the aggregation of medium- and long-term debt and exchange rate and interest rate derivative instruments, assuming a 10% change in exchange rates, was £162 million (2004 £115 million). The potential change in the fair value of the above, assuming a 10% change in the level of interest rates was £9 million (2004 £8 million), of which £7 million related to finance leases and derivative instruments related to them.

Loans held by the Group are measured at amortised cost except where they form the underlying transaction in an effective fair value hedge relationship when the carrying amount is adjusted to reflect the fair value movements associated with the hedged risks. Other financial instruments such as receivables balances are measured at amortised cost less any provisions for impairment.

#### **COMMODITY INSTRUMENTS**

On adoption of IAS 39, BG Group assessed all commodity contracts to determine whether they fell within the scope of the standard at the inception of each contract. Within the ordinary course of business the Group 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 receipt or delivery of the commodity in accordance with the Group's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS 39 and accordingly are not recognised in the Financial Statements.

Certain short-term contracts for the purchase and subsequent resale of third-party commodities are within the scope of IAS 39 and are recognised on the balance sheet at fair value with movements in fair value recognised in the income statement.

Certain long-term gas contracts operating in the UK gas market have terms within the contract that constitute written options and accordingly they fall within the scope of IAS 39. They are recognised on the balance sheet at fair value with movements in fair value recognised in the income statement.

The Group uses various commodity based derivative instruments to manage some of the risks arising from fluctuations in commodity prices. Such contracts include physical and net-settled forwards, futures, swaps and options. Where these derivatives have been designated under IAS 39 as cash flow hedges of underlying commodity price exposures, certain gains and losses attributable to these instruments are deferred in equity and recognised in the income statement when the underlying hedge transaction occurs. The pre-tax loss recognised in equity in respect of these contracts as at 31 December 2005 was £25 million.

All other net-settled commodity contracts are measured at fair value with gains and losses taken to the income statement.

Gas contracts and related derivatives associated with the physical purchase, storage and resale of third-party gas are presented on a net basis within other operating income.

# Consolidated income statement

for the year ended 31 December 2005

	Notes	Business Performance £m	Disposals and re- measurements £m	Total £m
Group revenue	2	5 612	–	5 612
Other operating income	3	52	(240)	(188)
Group revenue and other operating income	2	5 664	(240)	5 424
Operating costs	4	(3 503)	–	(3 503)
Profit/(loss) on disposal of non-current assets	6	–	446	446
Operating profit before share of results from joint ventures and associates	2	2 161	206	2 367
Finance income	7	75	30	105
Finance costs	7	(85)	(15)	(100)
Share of post-tax results from joint ventures and associates	2	160	–	160
Profit before tax		2 311	221	2 532
Taxation	8	(900)	(41)	(941)
Profit for the year	2	1 411	180	1 591
Profit attributable to:				
Minority interests	2	31	9	40
Shareholder (earnings)	2	1 380	171	1 551
		1 411	180	1 591

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

For information on dividends paid and proposed in the year see note 9, page 31.



## Consolidated income statements continued

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BIG ENERGY HOLDINGS LIMITED 2006

for the year ended 31 December							
	Notes	2004			2003		
		Business Performance £m	Disposals and re- measurements £m	Total £m	Business Performance £m	Disposals and re- measurements £m	Total £m
Group revenue	2	4 053	—	4 053	3 558	—	3 558
Other operating income	3	10	—	10	6	—	6
Group revenue and other operating income	2	4 063	—	4 063	3 564	—	3 564
Operating costs	4	(2 734)	—	(2 734)	(2 473)	—	(2 473)
Profit/(loss) on disposal of non-current assets	6	—	87	87	—	116	116
Operating profit before share of results from joint ventures and associates	2	1 329	87	1 416	1 091	116	1 207
Finance income	7	42	—	42	44	—	44
Finance costs	7	(75)	—	(75)	(74)	—	(74)
Share of post-tax results from joint ventures and associates	2	125	—	125	132	—	132
Profit before tax		1 421	87	1 508	1 193	116	1 309
Taxation	8	(555)	(30)	(585)	(470)	(32)	(502)
Profit for the year	2	866	57	923	723	84	807
Profit attributable to:							
Minority interests	2	28	—	28	28	—	28
Shareholder (earnings)	2	838	57	895	695	84	779
		866	57	923	723	84	807

## Consolidated statement of recognised income and expense

for the year ended 31 December				
	Notes	2005 £m	2004 £m	2003 £m
Profit for the year		1 591	923	807
Net fair value gains/(losses) on cash flow hedges	26	(45)	—	—
Transfers to income statement on cash flow hedges	26	18	—	—
Net fair value gains/(losses) on net investment hedges	26	(74)	—	—
Tax on cash flow and net investment hedges	26	31	—	—
Currency translation adjustments <sup>(a)</sup>	26	528	(136)	(10)
Net gains/(losses) recognised directly in equity		458	(136)	(10)
Total recognised income/(expense) for the year		2 049	787	797
Attributable to:				
Minority interests		54	31	52
Shareholder		1 995	756	745
		2 049	787	797
Effect of adoption of IAS 39	32	(238)	—	—
		1 811	787	797

In 2005, £11m (2004 £5m; 2003 £nil) was transferred to the income statement as part of the profit/(loss) on disposal of foreign operations.

The accounting policies on pages 8 to 13 together with the notes on pages 19 to 58 form part of these accounts.

# Consolidated balance sheets

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BG ENERGY HOLDINGS LIMITED 2006

		as at 31 December	
	Notes	2005 £m	2004 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	11	342	272
Other intangible assets	12	682	585
Property, plant and equipment	13	5 567	4 509
Investments accounted for using equity method	14	1 123	1 049
Other investments	14	1	1
Deferred tax assets	24	84	68
Trade and other receivables	17	52	46
Derivative financial instruments	21	84	–
		7 935	6 530
<b>Current assets</b>			
Inventories	16	185	99
Trade and other receivables	17	1 664	1 159
Commodity contracts and other derivative financial instruments	21	10	–
Cash and cash equivalents	18	1 516	340
		3 375	1 598
Assets classified as held for sale	19	10	530
<b>Total assets</b>		<b>11 320</b>	<b>8 658</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	20	(71)	(577)
Trade and other payables	22	(2 308)	(1 209)
Current tax liabilities		(409)	(264)
Commodity contracts and other derivative financial instruments	21	(711)	–
		(3 499)	(2 050)
<b>Non-current liabilities</b>			
Borrowings	20	(1 224)	(762)
Trade and other payables	22	(68)	(89)
Derivative financial instruments	21	(2)	–
Deferred tax liabilities	24	(733)	(907)
Retirement benefit obligations	29	(154)	(135)
Provisions for other liabilities and charges	23	(367)	(325)
		(2 548)	(2 218)
Liabilities associated with assets classified as held for sale	19	(3)	(67)
<b>Total liabilities</b>		<b>(6 050)</b>	<b>(4 335)</b>
<b>Net assets</b>		<b>5 270</b>	<b>4 323</b>

The accounting policies on pages 8 to 13 together with the notes on pages 19 to 58 form part of these accounts.

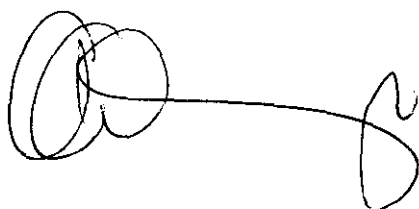
# Consolidated balance sheets continued

	Notes	as at 31 December	
		2005 £m	2004 £m
<b>Equity</b>	25, 26		
Ordinary shares		2 898	2 898
Share premium		316	316
Hedging reserve		(20)	—
Translation reserve		259	(173)
Retained earnings		1 719	1 262
Total shareholder's equity		5 172	4 303
Minority interest in equity		98	20
<b>Total equity</b>		<b>5 270</b>	<b>4 323</b>

All inter-company transactions are eliminated on consolidation. Commitments and contingencies are shown in note 27, page 44.

The accounts on pages 8 to 58 were approved by the Board and signed on its behalf on 28 June 2006 by:

Ashley Almanza, Director



# Consolidated cash flow statements

	Notes	for the year ended 31 December		
		2005 £m	2004 £m	2003 £m
<b>Cash generated by operations</b>	30	<b>2 478</b>	<b>1 576</b>	<b>1 450</b>
Income taxes paid		(883)	(387)	(332)
<b>Net cash inflow from operating activities</b>		<b>1 595</b>	<b>1 189</b>	<b>1 118</b>
<b>Cash flows from investing activities</b>				
Dividends received		93	81	88
Proceeds from disposal of subsidiary undertakings and investments <sup>(a)</sup>		(67)	32	119
Proceeds from disposal of property, plant and equipment and intangible assets <sup>(b)</sup>		950	142	72
Purchase of property, plant and equipment and intangible assets		(1 064)	(1 022)	(855)
Loans from/(to) joint ventures and associates		65	(4)	(232)
Purchase of subsidiary undertakings and investments <sup>(c)</sup>		(39)	(364)	(3)
<b>Net cash outflow from investing activities</b>		<b>(62)</b>	<b>(1 135)</b>	<b>(811)</b>
<b>Cash flows from financing activities</b>				
Interest paid <sup>(d)</sup>		(72)	(47)	(64)
Interest received		61	35	40
Dividends paid		(900)	(569)	(200)
Dividends paid to minority		(29)	(3)	(6)
Net proceeds from issue of new borrowings <sup>(e)</sup>		334	416	239
Repayment of borrowings		(549)	(317)	(359)
Issue of shares to minority shareholders		—	—	5
Funding movements with parent company		766	465	90
<b>Net cash outflow from financing activities</b>		<b>(389)</b>	<b>(20)</b>	<b>(255)</b>
<b>Net increase in cash and cash equivalents</b>		<b>1 144</b>	<b>34</b>	<b>52</b>
<b>Cash and cash equivalents at 1 January</b>	18	<b>340</b>	<b>312</b>	<b>261</b>
<b>Effect of foreign exchange rate changes</b>		<b>32</b>	<b>(6)</b>	<b>(1)</b>
<b>Cash and cash equivalents at 31 December</b>	18	<b>1 516</b>	<b>340</b>	<b>312</b>

Major non-cash transactions included assets acquired during the year of £215m (2004 £283m) financed through finance lease arrangements. The consideration for a subsidiary undertaking acquired in the year included a cash payment of £18m deferred until 2006. Further details of the acquisition are shown in note 15, page 35.

- (a) In 2005, represents the cash derecognised on the deconsolidation of MetroGAS S.A. of £99m, the cash received on the disposal of the Group's interests in its Brazilian telecoms businesses of £6m and the cash received on the disposal of the Group's 50% interest in Premier Transmission Limited of £26m.  
In 2004, represents the cash received on the disposal of the Group's 12.1% interest in GAIL (India) Limited (previously called Gas Authority of India Limited) of £32m.  
In 2003, represents cash received on the disposal of Phoenix Natural Gas Limited of £120m, offset by cash disposed of £6m; and cash received on the partial disposal of Brindisi LNG SpA of £5m.
- (b) In 2005, includes the cash received on the disposal of BG Group's 16.67% interest in the North Caspian Sea PSA of £936m. In 2004, represents proceeds of the disposal of BG Energy Holding's interest in the Muturi PSC in Indonesia for £142m. In 2003, represents the cash received from the disposal of a number of North Sea gas producing assets.
- (c) In 2005, includes cash acquired of £18m on the purchase of Brindisi LNG SpA. In 2004, includes cash acquired of £10m on the purchase of BG Canada Exploration and Production, Inc. and cash acquired of £2m on the purchase of Aventura Energy, Inc.
- (d) Includes capitalised interest of £30m (2004 £13m; 2003 £22m).
- (e) Includes net cash flows relating to short maturity financing items.

## 1 NEW ACCOUNTING STANDARDS

New accounting standards and interpretations and their likely impact on the future accounting policies of BG Energy Holdings are set out below. In addition, there are a number of interpretations effective from 1 January 2006 which are unlikely to have a material impact on the Group.

### **IFRS 6, 'Exploration for and Evaluation of Mineral Resources'**

In December 2004, the International Accounting Standards Board (IASB) issued IFRS 6, which covers the accounting treatment of expenditure incurred on the exploration and evaluation of mineral resources. The standard is mandatory for the periods beginning on or after 1 January 2006 although early adoption is encouraged. BG Energy Holdings has adopted this standard from 1 January 2005. IFRS 6 permits companies to continue to use accounting policies applied immediately before adopting the standard. Accordingly, BG Energy Holdings has continued to use the 'successful efforts' method for accounting for exploration expenditure. In addition, the standard requires companies to perform impairment tests on exploration assets when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The adoption of this standard has had no impact on the Group's income statement for the year ended 31 December 2005 or its net assets as at 31 December 2005.

### **IFRIC Interpretation 4, 'Determining whether an Arrangement contains a Lease'**

In December 2004, the IASB issued IFRIC 4. This interpretation is applicable from 1 January 2006 and has transition exemptions that mean that it should be used for all arrangements existing at the start of the earliest period for which comparative information is presented. BG Energy Holdings has applied this interpretation from 1 January 2006. IFRIC 4 requires companies to determine whether they have any arrangements which are or contain leases based on an assessment of whether specific assets are required to fulfil each arrangement or whether each arrangement conveys a right of use of the asset. If an arrangement contains a lease, the requirements of IAS 17 should be applied to the lease element of the arrangement.

BG Energy Holdings has undertaken a review of all applicable arrangements entered into by the Group and its joint ventures and associates in advance of the application date of IFRIC 4 and has concluded that its contract for the provision of capacity at Lake Charles contains a lease which will be accounted for as a finance lease. Accordingly, on 1 January 2006, the Group's net borrowings increased by approximately £280m and property, plant and equipment increased by approximately £260m to reflect this arrangement.

### **Amendments to IAS 39: Financial Guarantee Contracts and Credit Insurance and IFRS 7, 'Financial Instruments: Disclosures'**

In August 2005, the IASB issued an amendment to IAS 39 which covers the accounting required for financial guarantee contracts that provide payment to be made if a debtor fails to make a payment when due. These contracts should be initially measured at fair value and subsequently re-measured using the higher of the provisions set out in IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' or the initial amount less cumulative amortisation in accordance with IAS 18, 'Revenue'. This amendment is mandatory for periods beginning on or after 1 January 2006 and BG Energy Holdings has adopted it from that date. The amendment is unlikely to have a material impact on the Group's Financial Statements. The Group will adopt the disclosure requirements in respect of financial instruments set out in IFRS 7 in its Financial Statements for the year ended 31 December 2006.

## 2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION

The primary reporting segments for BG Energy Holdings' operations in 2005 comprise Exploration and Production (E&P), Liquefied Natural Gas (LNG), Transmission and Distribution (T&D), Power Generation (Power) and Other activities. E&P comprises exploration, development, production and marketing of hydrocarbons with a focus on natural gas. LNG combines the development and use of LNG import and export facilities with the purchase, shipping and sale of LNG and regasified natural gas. T&D develops, owns and operates major pipelines and distribution networks, and supplies natural gas through these to the end customer. Power develops, owns and operates natural gas-fired power generation plants around the world. Other activities primarily comprise business development expenditure and corporate costs.

The Group manages its business segments on a global basis. During 2005, the operations were managed in five main geographical areas: Europe, South America, Asia and Middle East, North America and the Caribbean, and Mediterranean Basin and Africa. With effect from March 2006, the Group's Kazakhstan assets were incorporated into the newly created Europe and Central Asia region with the remaining assets in the Asia and Middle East region being incorporated into the newly created Asia Pacific region. In this note, the segmental analysis and results presentation is aligned with the way the business was managed in 2005.

Intra-group and inter-segment sales are settled at market prices and are generally based on the same prices as those charged to third parties ('arm's length' principle). Group revenue, profit for the year, net assets, gross assets and gross liabilities, depreciation and amortisation and capital investment attributable to BG Energy Holdings activities are shown below analysed by business segment and geographical segment.

Under IFRS the results from jointly controlled entities (joint ventures) and associates are presented net of tax and finance costs on the face of the income statement. It is also relevant to present the operating profit of the Group including results of joint ventures and associates before interest and tax. The following tables provide a reconciliation between the overall results and operating profit including and excluding the results of joint ventures and associates.

# Notes to the accounts continued

## 2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION continued

### PROFIT FOR THE YEAR

#### *Analysed by business segment*

for the year ended 31 December

	2005 £m	2004 £m	2003 £m
Group revenue			
Exploration and Production	3 067	2 148	1 787
Liquefied Natural Gas	1 586	1 088	939
Transmission and Distribution	808	644	678
Power Generation	227	187	168
Other activities	15	8	3
Less: intra-group sales <sup>(a)</sup>	(91)	(22)	(17)
Group revenue	5 612	4 053	3 558
Other operating income	(188)	10	6
Group revenue and other operating income	5 424	4 063	3 564
<b>Operating profit/(loss) before share of results from joint ventures and associates</b>			
Exploration and Production	2 120	1 235	1 030
Liquefied Natural Gas	60	46	27
Transmission and Distribution	230	108	143
Power Generation	24	28	28
Other activities	(67)	(1)	(21)
	2 367	1 416	1 207
Finance income	105	42	44
Finance costs	(100)	(75)	(74)
Share of post-tax results from joint ventures and associates	160	125	132
<b>Profit before tax</b>	<b>2 532</b>	<b>1 508</b>	<b>1 309</b>
Taxation	(941)	(585)	(502)
<b>Profit for the year</b>	<b>1 591</b>	<b>923</b>	<b>807</b>
Profit attributable to:			
Minority interests	40	28	28
<b>Shareholder (earnings)</b>	<b>1 551</b>	<b>895</b>	<b>779</b>
	<b>1 591</b>	<b>923</b>	<b>807</b>

(a) Intra-group sales are attributable to the E&P segment.

## 2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION continued

### PROFIT FOR THE YEAR

#### Analysed by geographical segment

for the year ended 31 December

	2005 £m	2004 £m	2003 £m
<b>Group revenue</b>			
Europe	1 547	1 341	1 293
South America	750	574	566
Asia and Middle East	925	548	380
North America and the Caribbean	1 852	1 313	1 083
Mediterranean Basin and Africa	598	277	236
Less: intra-group sales <sup>(a)</sup>	(60)	–	–
<b>Group revenue</b>	<b>5 612</b>	<b>4 053</b>	<b>3 558</b>
Other operating income	(188)	10	6
<b>Group revenue and other operating income</b>	<b>5 424</b>	<b>4 063</b>	<b>3 564</b>
<b>Operating profit/(loss) before share of results from joint ventures and associates</b>			
Europe	610	615	635
South America	190	104	96
Asia and Middle East	929	348	135
North America and the Caribbean	315	187	176
Mediterranean Basin and Africa	323	162	165
	<b>2 367</b>	<b>1 416</b>	<b>1 207</b>
Finance income	105	42	44
Finance costs	(100)	(75)	(74)
Share of post-tax results from joint ventures and associates	160	125	132
<b>Profit before tax</b>	<b>2 532</b>	<b>1 508</b>	<b>1 309</b>
Taxation	(941)	(585)	(502)
<b>Profit for the year</b>	<b>1 591</b>	<b>923</b>	<b>807</b>
Profit attributable to:			
Minority interests	40	28	28
<b>Shareholder (earnings)</b>	<b>1 551</b>	<b>895</b>	<b>779</b>
	<b>1 591</b>	<b>923</b>	<b>807</b>

(a) Intra-group sales are attributable to Mediterranean Basin and Africa, the external customer relating to these sales is located in the North America and the Caribbean segment. There are no other material differences between source and destination.

### JOINT VENTURES AND ASSOCIATES

#### Analysed by business segment

	Pre-tax share of operating results of joint ventures and associates			Share of net finance costs and tax of joint ventures and associates			Share of post-tax results from joint ventures and associates		
for the year ended 31 December	2005 £m	2004 £m	2003 £m	2005 £m	2004 £m	2003 £m	2005 £m	2004 £m	2003 £m
Liquefied Natural Gas	111	65	56	(25)	(20)	(9)	86	45	47
Transmission and Distribution	42	40	43	(16)	(16)	(18)	26	24	25
Power Generation	89	88	96	(41)	(32)	(36)	48	56	60
	<b>242</b>	<b>193</b>	<b>195</b>	<b>(82)</b>	<b>(68)</b>	<b>(63)</b>	<b>160</b>	<b>125</b>	<b>132</b>

#### Analysed by geographical segment

	Pre-tax share of operating results of joint ventures and associates			Share of net finance costs and tax of joint ventures and associates			Share of post-tax results from joint ventures and associates		
for the year ended 31 December	2005 £m	2004 £m	2003 £m	2005 £m	2004 £m	2003 £m	2005 £m	2004 £m	2003 £m
Europe	54	45	47	(27)	(22)	(25)	27	23	22
South America	14	9	17	(3)	(2)	(7)	11	7	10
Asia and Middle East	63	63	66	(27)	(20)	(20)	36	43	46
North America and the Caribbean	91	65	56	(19)	(20)	(9)	72	45	47
Mediterranean Basin and Africa	20	11	9	(6)	(4)	(2)	14	7	7
	<b>242</b>	<b>193</b>	<b>195</b>	<b>(82)</b>	<b>(68)</b>	<b>(63)</b>	<b>160</b>	<b>125</b>	<b>132</b>

# Notes to the accounts continued

## 2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION continued

### NET ASSETS, GROSS ASSETS AND GROSS LIABILITIES

#### Analysed by business segment

as at 31 December	Total assets(a)		Total liabilities		Net assets/(liabilities)(b)	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Exploration and Production	6 138	5 436	(1 759)	(976)	4 379	4 460
Liquefied Natural Gas	1 713	1 211	(272)	(93)	1 441	1 118
Transmission and Distribution	1 083	907	(170)	(127)	913	780
Power Generation	612	588	(109)	(97)	503	491
Other activities	73	93	(210)	(234)	(137)	(141)
Net borrowings, net interest and tax	1 701	423	(3 530)	(2 808)	(1 829)	(2 385)
	11 320	8 658	(6 050)	(4 335)	5 270	4 323

(a) Total assets includes investment in joint ventures and associates of £1123m (2004 £1049m), attributable to segments as follows: LNG £648m (2004 £598m), T&D £109m (2004 £100m) and Power £366m (2004 £351m).

(b) Includes net assets classified as held for sale of £7m attributable to the Other activities segment (2004 £453m attributable to the E&P segment and £10m attributable to the T&D segment). Further details on assets held for sale are given in note 19, page 36.

#### Analysed by geographical segment

as at 31 December	Total assets(c)		Total liabilities		Net assets/(liabilities)(d)	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Europe	2 421	1 954	(1 558)	(396)	863	1 558
South America	1 198	1 014	(185)	(269)	1 013	745
Asia and Middle East	1 953	2 165	(327)	(186)	1 626	1 979
North America and the Caribbean	2 207	1 586	(323)	(226)	1 884	1 360
Mediterranean Basin and Africa	1 840	1 516	(127)	(450)	1 713	1 066
Net borrowings, net interest and tax	1 701	423	(3 530)	(2 808)	(1 829)	(2 385)
	11 320	8 658	(6 050)	(4 335)	5 270	4 323

(c) Total assets includes investment in joint ventures and associates of £1123m (2004 £1049m), attributable to regions as follows: Europe £245m (2004 £240m), South America £75m (2004 £71m), Asia and Middle East £186m (2004 £165m), North America and the Caribbean £514m (2004 £407m) and Mediterranean Basin and Africa £103m (2004 £166m).

(d) Includes net assets classified as held for sale of £7m attributable to the Asia and Middle East segment (2004 £453m attributable to the Asia and Middle East segment and £10m attributable to the Europe segment). Further details on assets held for sale are given in note 19, page 36.

### DEPRECIATION, AMORTISATION AND IMPAIRMENT

#### Analysed by business segment

##### for the year ended 31 December

	2005 £m	2004 £m	2003 £m
Exploration and Production	421	385	376
Liquefied Natural Gas	16	13	5
Transmission and Distribution	30	23	24
Power Generation	18	18	10
Other activities(a)	21	4	3
	506	443	418

#### Analysed by geographical segment

##### for the year ended 31 December

	2005 £m	2004 £m	2003 £m
Europe	206	255	277
South America	36	24	20
Asia and Middle East(a)	106	74	59
North America and the Caribbean	61	45	23
Mediterranean Basin and Africa	97	45	39
	506	443	418

(a) In 2005, includes impairment losses of £14m.

In addition to the above, in 2005 the Group recognised an impairment charge of £8m in respect of Gasoducto Cruz del Sur S.A., an investment accounted for using the equity method and included within the T&D and South America segments.



## 2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION continued

### CAPITAL INVESTMENT

#### Analysed by business segment

for the year ended 31 December	Capital expenditure(a)			Capital investment(b)		
	2005 £m	2004 £m	2003 £m	2005 £m	2004 £m	2003 £m
Exploration and Production <sup>(c)</sup>	935	1 010	654	935	1 380 <sup>(d)</sup>	654
Liquefied Natural Gas	302	254	58	422	417	301
Transmission and Distribution	135	66	74	136	66	76
Power Generation	3	2	2	3	3	3
Other activities	20	23	20	20	28	20
	1 395	1 355	808	1 516	1 894	1 054

#### Analysed by geographical segment

for the year ended 31 December	Capital expenditure(a)			Capital investment(b)		
	2005 £m	2004 £m	2003 £m	2005 £m	2004 £m	2003 £m
Europe	374	230	150	447	247	150
South America	159	97	74	160	102	76
Asia and Middle East <sup>(c)</sup>	194	302	312	194	302	313
North America and the Caribbean	357	310	80	403	664	174
Mediterranean Basin and Africa	311	416	192	312	579 <sup>(d)</sup>	341
	1 395	1 355	808	1 516	1 894	1 054

(a) Comprises expenditure on property, plant and equipment and intangible assets.

(b) Comprises expenditure on property, plant and equipment, intangible assets and investments, including acquisitions of subsidiary companies.

(c) Includes £60m (2004 £150m; 2003 £104m) in respect of the Group's interest in the North Caspian Sea PSA, which was classified as held for sale until its disposal in 2005.

(d) Includes £15m in relation to the purchase of an additional 40% interest in the Rosetta field, Egypt, included in working capital.

## 3 OTHER OPERATING INCOME

Other operating income comprises the results of the purchase and re-sale of third-party gas in the UK (see below), income arising from asset optimisation activities undertaken by the Group's US LNG operations and unrealised gains and losses arising from the mark-to-market of commodity based derivative instruments, including certain UK long-term gas sales contracts classified as derivatives under IAS 39. Further details of the use and valuation of commodity based financial instruments are shown in note 21, page 39.

As part of managing its UK gas supply portfolio, BG Energy Holdings undertakes the purchase and re-sale of third-party gas. The components of this activity are presented on a net basis within other operating income (in 2004 and 2003 presented net within operating costs) and are shown below.

	2005 £m	2004 £m	2003 £m
Third-party gas sales	1 017	987	727
Third-party gas purchases	(1 010)	(994)	(712)
Net profit/(loss)	7	(7)	15

In 2005, 2 664m therms (2004 3 747m therms; 2003 3 687m therms) of third-party gas were purchased and re-sold.

# Notes to the accounts continued

## 4 OPERATING COSTS

Included within the Group's operating costs charged to the income statement were the following items:

	2005 £m	2004 £m	2003 £m
Raw materials, consumables and finished goods	1 775	1 283	1 172
Employee costs (see note 5(C), page 25)	274	224	200
Less: Own work capitalised	(37)	(31)	(29)
Employee costs included within Other exploration expenditure and Research and development, below	(10)	(10)	(13)
Employee costs included within finance costs	(3)	(2)	(1)
	224	181	157
Amounts written off Other intangible assets and Property, plant and equipment			
Depreciation and impairments (see note 13, page 33)	502	441	418
Amortisation of other intangible assets (see note 12, page 32)	4	2	—
Less impairments reported within profit/(loss) on disposal	(14)	—	—
	492	443	418
Unsuccessful exploration expenditure written off	70	52	46
Other operating charges:			
Other exploration expenditure	111	74	36
Lease rentals:			
Plant and equipment	36	36	48
Other assets	17	12	11
Research and development	7	7	8
Other costs <sup>(a)</sup>	771	646	577
	3 503	2 734	2 473

(a) Includes production, royalty, tariff, storage, marketing and general administration costs.

The remuneration of the Group's Auditors comprised fees as follows:

	2005 £m	2004 £m	2003 £m
Audit fees	1.6	2.1	1.2
Audit-related fees	0.3	0.4	0.1
Tax fees	0.3	0.4	0.4
All other fees	—	—	0.2
	2.2	2.9	1.9

## 5 DIRECTORS AND EMPLOYEES

### A) DIRECTORS' REMUNERATION

Directors' remuneration and interests are given in the Directors' report on pages 2 to 5.

### B) KEY MANAGEMENT COMPENSATION

Key management are considered to be the Directors and their remuneration and interests are given in the Directors' report on pages 2 to 5.

	2005 £000	2004 £000	2003 £000
Salaries	2 396	2 737	2 084
Benefits <sup>(a)</sup>	516	863	297
Bonus <sup>(b)</sup>	1 852	1 781	1 672
Pension benefit <sup>(c)</sup>	1 110	1 295	1 277
Share-based payments	2 425	1 420	349
Termination payments	—	505	—
	8 299	8 601	5 679

The key management compensation analysed above represents amounts in respect of the Directors of BG Energy Holdings excluding Frank Chapman, William Friedrich and Ashley Almanza.

(a) This includes £nil (2004 £113 128; 2003 £22 412) for post-retirement medical benefits and long-term care insurance for a Director who is a US citizen.

(b) Bonus figures for 2005 represent payments under the Annual Incentive Scheme (AIS) in respect of the 2005 incentive year which were made in 2006. Figures for 2004 represent payments under the AIS in respect of the 2004 incentive year which were made in 2005.

(c) For all three years this represents the aggregate increase in transfer value of the accrued pensions of key management over the year less employee contributions with the exception of one Director where the pension benefit is equal to the contributions paid by the Group to his private pension scheme.

### C) EMPLOYEE COSTS

	2005 £m	2004 £m	2003 £m
Wages and salaries	169	147	130
Social security costs	17	16	16
Pension charge <sup>(a) (b)</sup>	34	32	29
Share-based payments (see note 5(E), page 26)	31	13	4
Other incentive schemes	23	16	21
	274	224	200

(a) The pension charge for the year ended 31 December includes £1m (2004 £6m; 2003 £10m) in respect of payments made for pension curtailments in redundancy, £1m (2004 £5m; 2003 £5m) of which has been provided in prior years as part of a restructuring provision.

(b) The pension charge for the year ended 31 December includes £3m (2004 £2m; 2003 £1m) which is presented as finance cost (see note 7, page 30).

In 2005, employee costs of £237m (2004 £193m; 2003 £171m) were charged to the income statement and £37m (2004 £31m; 2003 £29m) were capitalised.

### D) AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR

	Employed in the UK			Employed outside the UK		
	2005 Number	2004 Number	2003 Number	2005 Number	2004 Number	2003 Number
Exploration and Production	949	843	854	1 088	873	688
Liquefied Natural Gas	87	75	125	200	143	66
Transmission and Distribution	61	75	67	2 193 <sup>(a)</sup>	2 139	2 143
Power Generation	187	168	224	16	37	28
Other activities	75	66	37	503 <sup>(b)</sup>	414	361
	1 359	1 227	1 307	4 000	3 606	3 286

(a) Included in this figure are an average of 1 009 employees of MetroGAS S.A. This company was deconsolidated at the end of 2005.

(b) Included in this figure are an average of 200 employees of the Group's Brazilian telecoms businesses disposed of in 2005.

# Notes to the accounts continued

## 5 DIRECTORS AND EMPLOYEES continued

### E) SHARE-BASED PAYMENTS

BG Energy Holdings has recognised the fair value of share-based payments to employees based on grants of options (allocated under BG Group plc's Company Share Option Scheme and BG Group plc's Sharesave Scheme) and shares (allocated under BG Group plc's Long Term Incentive Scheme and BG Group plc's Free Shares Scheme) from 7 November 2002 (the effective date of IFRS 2, 'Share-based Payment').

#### **BG Group plc's Company Share Option Scheme**

Details of BG Group plc's Company Share Option Scheme (CSOS) are given in BG Group plc's Annual Report and Accounts. Details of share options held by Directors under the CSOS are given on page 4, other than in relation to Frank Chapman, William Friedrich and Ashley Almanza, details for whom are given in BG Group plc's Annual Report and Accounts.

The first grants under the CSOS were made in November 2000. Further grants have been made in all subsequent years up to and including 2005. In 2005, grants of 16.0m (2004 16.0m; 2003 15.9m) share options were made under the CSOS. The costs of this scheme are charged to the income statement over the vesting period, based upon the fair value of the share option at the grant date and the likelihood of allocations vesting under the scheme. In 2005, the amount recharged to BG Energy Holdings from its parent company in respect of the CSOS was £9m (2004 £4m; 2003 £1m).

The fair value of share options granted during the year in respect of the CSOS is estimated using a Black-Scholes option pricing model with the following assumptions: weighted average BG Group plc share price of £5.11 (2004 £3.48; 2003 £2.68), exercise price of £4.99 (2004 £3.47; 2003 £2.71), dividend yield of 1.0% (2004 1.0%; 2003 1.2%), volatility of 19% (2004 22%; 2003 32%), a risk-free rate of 4.08% (2004 4.96%; 2003 4.47%) and an expected life of five years (2004 five years; 2003 five years). The average value of share options granted during the year was £1.21 per share (2004 £0.95 per share; 2003 £0.85 per share).

Expected volatility was determined by calculating the historical volatility of BG Group plc's share price over the previous three year period. A three year period has been used in the absence of data in respect of BG Group plc's share volatility over a five year period. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

#### **BG Group plc's Long Term Incentive Scheme**

Details of BG Group plc's Long Term Incentive Scheme (LTIS) are given in BG Group plc's Annual Report and Accounts. Details of notional allocations to Directors under the LTIS are given on page 3, other than in relation to Frank Chapman, William Friedrich and Ashley Almanza, details for whom are given in BG Group plc's Annual Report and Accounts. In 2005, notional allocations of 6.5m ordinary shares (2004 5.2m ordinary shares; 2003 5.6m 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 2005, the amount recharged to BG Energy Holdings from its parent company in respect of the LTIS was £4m (2004 £2m; 2003 £1m).

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 BG Group plc share price of £5.11 (2004 £3.50; 2003 £2.68), exercise price of £nil (2004 £nil; 2003 £nil), dividend yield of 0.8% (2004 0.9%; 2003 1.2%), a risk-free rate of 3.8% (2004 2.9%; 2003 2.3%), an expected life of three years (2004 three years; 2003 three years). The model also contains assumptions for both BG Group plc and each member of the LTIS comparator group (as set out on page 53) 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 £2.20 per share (2004 £1.70 per share; 2003 £1.21 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 based on the vesting period.

#### **BG Group plc's Sharesave Scheme**

Details of BG Group plc's Sharesave Scheme (the Sharesave Scheme) are given in BG Group plc's Annual Report and Accounts. Details of share options held by Directors are given on page 3, other than in relation to Frank Chapman, William Friedrich and Ashley Almanza, details for whom are given in BG Group plc's Annual Report and Accounts. In 2005, grants of 0.5m (2004 1.5m; 2003 0.04m) 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 2005, the amount recharged to BG Energy Holdings from its parent company in respect of the Sharesave Scheme was £0.6m (2004 £0.2m; 2003 £0.03m).

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 BG Group plc share price of £5.11 (2004 £3.49; 2003 £2.69), exercise price of £3.95 (2004 £2.74; 2003 £2.19), dividend yield of 1.0% (2004 1.0%; 2003 1.2%), volatility of 19% (2004 22%; 2003 31%), a weighted average risk-free rate of 4.08% (2004 4.84%; 2003 4.34%) and a weighted average expected life of 3.7 years (2004 3.6 years; 2003 3.8 years). The average fair value of share options granted during the year was £1.64 per share (2004 £1.17 per share; 2003 £0.95 per share).

Expected volatility was determined by calculating the historical volatility of the BG Group plc'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.

## 5 DIRECTORS AND EMPLOYEES continued

### BG Group plc's Share Incentive Plan

Details of the BG Group plc's Share Incentive Plan (SIP) are given in BG Group plc's Annual Report and Accounts. During the year, 0.8m ordinary shares were awarded as Free Shares under the plan (2004 1.0m ordinary shares; 2003 1.3m ordinary shares).

Under IFRS 2 the charge to the profit and loss account in respect of the award is based on the market value of BG Group plc shares at the grant date. The fair value of the shares awarded during the year was £4.19 per share (2004 £3.32 per share; 2003 £2.51 per share). In 2005, the amount recharged to BG Energy Holdings from its parent company in respect of the SIP was £3m (2004 £3m; 2003 £2m).

### Cash-Settled Share-Based Payments

Cash-settled share-based payments arise when BG Energy Holdings 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 BG Group plc's shares.

A charge of £2m has been made in respect of cash-settled CSOS awards (2004 £0.3m; 2003 £0.1m) the terms of which are the same as the equity-settled CSOS awards and a charge of £12m (2004 £3m; 2003 £nil) 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 income statement 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: BG Group plc share price of £5.55 (2004 £3.53; 2003 £2.68), weighted average exercise price of £2.87 (2004 £2.75; 2003 £2.71), dividend yield of 1.0% (2004 1.0%; 2003 1.2%), volatility of 20.00% (2004 21.63%; 2003 32.00%), a weighted average risk-free rate of 4.39% (2004 4.48%; 2003 4.47%) and an expected life of three years (2004 four years; 2003 five years). The average fair value of cash-settled CSOS awards at the balance sheet date was £2.76 (2004 £1.20; 2003 £0.85).

The charge to the income statement in respect of social security costs has been calculated based on the fair value of the awards at the balance sheet date multiplied by the current employer's National Insurance rate. This charge covers social security costs on awards made before and after 7 November 2002.

The fair value of the awards at the balance sheet date has been estimated using a Black-Scholes option pricing model or the Monte Carlo projection model where appropriate. For the CSOS awards the assumptions used in the model are the same as those shown above for the cash-settled CSOS awards. For the LTIS awards the following assumptions were used: BG Group plc share price of £5.55 (2004 £3.54; 2003 £2.87), volatility of 20.00% (2004 21.63%; 2003 34.00%), a weighted average risk-free rate of 4.38% (2004 4.48%; 2003 4.44%), and an expected life of two years (2004 two years; 2003 three years). The average fair value of LTIS awards at the balance sheet date was £5.45 (2004 £3.42; 2003 £2.77).

### F) ANALYSIS OF SHARE OPTIONS AS AT 31 DECEMBER 2005

	Date of grant	Number of shares m	Weighted average option price £	Normal exercisable date	Weighted average remaining contractual life
<b>Sharesave Scheme options</b>					
	2000	1.1	2.29	2006	0yrs 8mths
	2001	0.1	2.26	2004/6	1yr 4mths
	2002	0.2	2.19	2005/7	1yr 11mths
	2003	0.3	2.19	2006/8	2yrs 1mth
	2004	1.5	2.74	2007/9	2yrs 11mths
	2005	0.5	3.95	2008/10	4yrs 1mth
<b>Company Share Option Scheme options</b>					
	2000	1.24	2.685	2010	4yrs 10mths
	2001	3.01	2.5634	2011	5yrs 10mths
	2002	5.84	2.5175	2012	6yrs 8mths
	2003	0.08	2.3575	2013	7yrs 2mths
	2003	14.12	2.705	2013	7yrs 8mths
	2003	0.06	2.785	2013	7yrs 11mths
	2004	0.01	3.17	2014	8yrs 2mths
	2004	14.89	3.4733	2014	8yrs 8mths
	2004	0.15	3.5383	2014	8yrs 10mths
	2005	0.10	3.9658	2015	9yrs 1mth
	2005	0.04	4.3883	2015	9yrs 5mths
	2005	15.76	4.9942	2015	9yrs 8mths

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

# Notes to the accounts continued

## 5 DIRECTORS AND EMPLOYEES continued

### G) SUMMARY OF MOVEMENTS IN SHARE OPTIONS

	Sharesave Scheme options m	Executive Share Option Scheme options m	Company Share Option Scheme options m
<b>2003</b>			
Outstanding as at 1 January 2003	4.5	0.1	28.2
Granted	0.4	–	15.9
Exercised	(0.2)	(0.1)	(0.5)
Lapsed <sup>(a)</sup>	(0.4)	–	(1.3)
Outstanding as at 31 December 2003	4.3	–	42.3
Exercisable as at 31 December 2003	0.1	–	5.4
Option price range as at 31 December 2003 (£)	2.19 – 2.85	1.39	2.35 – 3.08
Option price range for exercised options (£)	2.19 – 2.85	1.39 – 1.54	2.52 – 2.69
<b>2004</b>			
Outstanding as at 1 January 2004	4.3	–	42.3
Granted	1.5	–	16.0
Exercised	(2.0)	–	(3.1)
Lapsed <sup>(a)</sup>	(0.2)	–	(1.7)
Outstanding as at 31 December 2004	3.6	–	53.5
Exercisable as at 31 December 2004	–	–	8.2
Option price range as at 31 December 2004 (£)	2.19 – 2.85	–	2.35 – 3.54
Option price range for exercised options (£)	2.19 – 2.85	–	2.52 – 2.71
<b>2005</b>			
Outstanding as at 1 January 2005	3.6	–	53.5
Granted	0.5	–	16.0
Exercised	(0.3)	–	(13.0)
Lapsed <sup>(a)</sup>	(0.1)	–	(1.2)
Outstanding as at 31 December 2005	3.7	–	55.3
Exercisable as at 31 December 2005	0.1	–	10.3
Option price range as at 31 December 2005 (£)	2.19 – 3.95	–	2.35 – 4.99
Option price range for exercised options (£)	2.19 – 2.85	–	2.52 – 3.47

The table includes movements in share options awarded both before and after 7 November 2002. The table also includes movements in share options granted to three Directors and the Company Secretary who are not employed by BGEH Group but who have options under the Company Share Option Scheme and the Sharesave Scheme.

(a) Lapses of Sharesave Scheme options during the year ended 31 December 2005 include 0.01m (2004 0.1m; 2003 0.1m) in respect of options that had expired.

### H) WEIGHTED AVERAGE EXERCISE PRICE OF SHARE OPTIONS

	Sharesave Scheme options £	Company Share Option Scheme options £
Outstanding as at 1 January 2005	2.46	2.87
Granted	3.95	4.99
Exercised	2.22	2.58
Lapsed	2.64	3.34
Outstanding as at 31 December 2005	2.67	4.36
Exercisable as at 31 December 2005	2.27	2.55

The table shows the weighted average exercise price of share options awarded both before and after 7 November 2002. The figures include the weighted average exercise price of share options granted to three Directors and the Company Secretary who are not employed by BGEH Group but who have options under the Company Share Option Scheme and the Sharesave Scheme.

## 6 DISPOSALS AND RE-MEASUREMENTS

BG Energy Holdings has separately identified profits and losses related to the disposal of non-current assets and certain re-measurements of derivative instruments in the income statement as follows:

	2005 £m	2004 £m	2003 £m
Other operating income:			
Re-measurements of commodity contracts <sup>(a)</sup>	(240)	–	–
Profit on disposal of non-current assets	446	87	116
Finance income and costs <sup>(a)</sup> :			
Gains on re-measurements of financial instruments	30	–	–
Losses on re-measurements of financial instruments	(15)	–	–
Taxation	(41)	(30)	(32)
Profit for the year	180	57	84
Profit attributable to:			
Minority interests	9	–	–
Shareholder (earnings)	171	57	84

(a) BG Energy Holdings adopted IAS 39 from 1 January 2005; figures for 2004 and 2003 do not contain re-measurements under IAS 39.

### OTHER OPERATING INCOME

Re-measurements included within Other operating income amount to a charge of £240m, £224m of which represents unrealised mark-to-market movements on certain long-term UK gas sales contracts. Whilst the activity surrounding these contracts involves the physical delivery of gas, the contracts fall within the scope of IAS 39 and meet the definition of a derivative instrument. A tax credit of £96m arose on these re-measurements. Further information on commodity instruments is given in note 21, page 39.

### DISPOSAL OF NON-CURRENT ASSETS

#### 2005

During 2005, BG Energy Holdings disposed of its 16.67% interest in the North Caspian Sea PSA and received net pre-tax proceeds of £936m, realising a £416m pre-tax and £279m post-tax profit on the disposal.

In addition, the Group disposed of its 50% interest in Premier Transmission Limited to Premier Transmission Financing plc for cash proceeds of £26m, realising a £13m profit on disposal. No tax arose on the disposal.

In December 2005, BG Energy Holdings signed a Master Restructuring Agreement with the other shareholder and creditors of Gas Argentino S.A. (GASA), the parent company of MetroGAS S.A. (MetroGAS). This agreement sets out the way in which the debt and equity of the company will be restructured, resulting in a reduction in BG Energy Holdings' control over GASA (and therefore MetroGAS). This restructuring is due to complete in 2006 (subject to Regulatory approval). Having assessed the status of the transaction and the requirements of IAS 27, BG Energy Holdings concluded it had lost control of GASA (and therefore MetroGAS) on signing the agreement and deconsolidated GASA and MetroGAS from that date. This deconsolidation and reduction in economic interest has resulted in a gain of £56m (representing the Group's share of net liabilities deconsolidated and including £6m of translation gains transferred from the translation reserve). As at 31 December 2005 these companies are accounted for under the equity method and recognised at nil value in the Group's Financial Statements. No tax arose on the deconsolidation.

In December 2005, as a result of the MetroGAS restructuring, BG Energy Holdings reviewed its planning assumptions associated with its investment in Gasoducto Cruz Del Sur S.A., the Uruguayan pipeline business. Gas supply and demand uncertainties in Argentina and Uruguay, combined with the reduced presence of BG Energy Holdings in Argentina and the reduced control of GASA have meant that the value in use of this investment was lower than the carrying amount. The impairment was calculated by comparing the value in use of the cash-generating unit (using a pre-tax discount rate of 8%) with the carrying value of the investment. It resulted in a charge of £8m to the T&D segment and is recognised within the consolidated income statement as part of the profit on disposal of non-current assets and impairments.

The Group also disposed of its 100% interest in BG Telecom Holdings Limitada, Iqara Telecom Limitada, DirectNet Participações Limitada and DirectNet Prestação de Serviços Limitada for sale proceeds of £11m, realising a loss on disposal of £18m. No tax arose on the disposals.

In addition, in December 2005, the Group's Indian telecoms businesses were subject to an impairment review as a result of management's decision to make a strategic withdrawal from all of the Group's telecoms businesses. The assets and liabilities of these businesses have been presented as 'held for sale' in the Group's balance sheet and valued at fair value net of disposal costs. Fair value is based on an indicative offer from a third-party, subject to due diligence, to purchase these businesses. Accordingly, an impairment charge of £14m has been recognised in the consolidated income statement as part of the profit on disposal of non-current assets and impairments and recorded against the assets of the telecoms businesses in the Other activities segment. The disposal was completed on 9 June 2006.

£1m profit was recognised following the disposal of BG Energy Holdings' interest in a North Sea asset. No tax arose on the disposal.

# Notes to the accounts continued

## 6 DISPOSALS AND RE-MEASUREMENTS continued

### 2004

During 2004, BG Energy Holdings disposed of its interest in the Muturi Production Sharing Contract and related Tangguh LNG project in Indonesia. The sale realised proceeds of £142m, resulting in a £66m pre-tax and £38m post-tax profit on the disposal.

In addition, BG Energy Holdings disposed of its 1.21% holding of shares in a listed company, GAIL (India) Limited (formerly Gas Authority of India Limited). The sale realised proceeds of £32m resulting in a pre-tax profit on disposal of £22m. Tax of £2m arose on the profit on disposal, based on the effective rate of capital gains tax in India for long-term investments.

£1m of expenditure was incurred relating to a prior year disposal.

### 2003

During 2003, BG Energy Holdings disposed of its 51% interest in its subsidiary undertaking, Phoenix Natural Gas Limited, a Northern Ireland natural gas distribution company. The sale realised proceeds of £120m, resulting in a £32m profit on disposal. No tax arose on the disposal.

In addition, the Group disposed of a number of North Sea gas production assets. The sale realised proceeds of £72m, resulting in a £77m pre-tax and £45m post-tax profit on disposal.

The Group also disposed of 50% of its 100% investment in BG Brindisi LNG SpA, realising a £6m profit. No tax arose on the disposal. This interest in Brindisi LNG SpA was re-purchased in 2005.

£2m profit was realised following the release of a provision made for costs relating to a prior year disposal. No tax arose on the disposal.

£1m loss was incurred relating to a prior year asset swap.

### FINANCE COSTS

Re-measurements within finance costs include the gain on retranslation of GASA's and MetroGAS' US Dollar and Euro borrowings which cannot be designated as hedges under IAS 39. In addition, there are re-measurement movements in respect of certain derivatives used to hedge foreign exchange and interest rate risk relating to financing activities and foreign exchange movements on certain borrowings in subsidiaries which represent effective economic hedging activities but do not qualify for hedge accounting under IAS 39.

## 7 FINANCE INCOME AND COSTS

	2005 £m	2004 £m	2003 £m
Interest receivable	72	41	30
Net exchange differences <sup>(a)</sup>	33	1	4
Other interest income <sup>(b)</sup>	—	—	10
<b>Finance income</b>	<b>105</b>	<b>42</b>	<b>44</b>
Interest payable:			
On loans wholly repayable within five years	(62)	(43)	(68)
On loans any part repayable after five years	(18)	(19)	(15)
Finance lease charges	(19)	(10)	—
Other interest payable <sup>(c)</sup>	(2)	(4)	—
Less: interest capitalised <sup>(d)</sup>	30	13	22
Unwinding of discount on provisions and pension obligations	(14)	(12)	(13)
Net fair value gains and losses on interest rate and currency exchange rate derivatives (see note 21, page 39)	(13)	—	—
Fair value hedge adjustments	(2)	—	—
<b>Finance costs</b>	<b>(100)</b>	<b>(75)</b>	<b>(74)</b>
<b>Net finance income/(costs)<sup>(e)</sup></b>	<b>5</b>	<b>(33)</b>	<b>(30)</b>

(a) Net exchange differences include the retranslation of certain borrowings in subsidiaries. Certain exposures relating to these borrowings are hedged by using interest rate and currency derivative instruments; the net fair value gains and losses on such derivatives are reported within finance costs.

(b) In 2003, comprises £10m interest receivable in respect of tax overpayments.

(c) In 2005, comprises £2m (2004 £4m) interest payable in respect of tax underpayments.

(d) Finance costs associated with general borrowings used to finance major capital projects are capitalised up to the point of commissioning. The weighted average interest cost applicable to these borrowings is 5.4% per annum.

(e) Excludes the Group's share of net finance costs from joint ventures and associates of £41m (2004 £34m; 2003 £41m).



## 8 TAXATION

	2005 £m	2004 £m	2003 £m
<b>Current tax</b>			
UK – corporation tax at 30% and 40% (2004 30% and 40%; 2003 30% and 40%)	862	389	323
– adjustments in respect of prior periods	(26)	(12)	13
– less: double tax relief	(419)	(116)	(90)
– petroleum revenue tax at 50%	3	16	–
UK tax charge	420	277	246
Overseas tax charge	599	253	148
– adjustments in respect of prior periods	(29)	11	–
<b>Current tax charge</b>	<b>990</b>	<b>541</b>	<b>394</b>
<b>Deferred tax</b>			
Temporary differences	(74)	31	105
Deferred petroleum revenue tax at 50% (2004 50%; 2003 50%)	25	13	3
<b>Tax charge</b>	<b>941</b>	<b>585</b>	<b>502</b>

The tax charge relating to disposals and re-measurements is £41m (2004 £30m; 2003 £32m). This consists of a tax credit on unrealised re-measurements of £96m (2004 £nil; 2003 £nil) and a tax charge on the disposal of non-current assets of £137m (2004 £30m; 2003 £32m).

The total tax charge reconciles with the charge calculated using the statutory rates of UK corporation tax as follows:

	2005 £m	2004 £m	2003 £m
Profit before taxation – UK	693	614	739
– Overseas	1 839	894	570
	2 532	1 508	1 309
Tax at UK statutory rates on profit	737	456	404
Effect on tax charge of:			
Non tax-deductible or non-taxable items	(11)	15	(16)
Overseas or petroleum revenue taxes at different rates to statutory rates	195	66	58
Prior year and other adjustments including unrelieved overseas tax losses	20	48	56
<b>Tax charge</b>	<b>941</b>	<b>585</b>	<b>502</b>

## 9 DIVIDENDS

No final dividend has been proposed by the Directors for 2005 (2004 £nil; 2003 £nil). An interim dividend of £900m (2004 £569m; 2003 £200m) was paid on 7 December 2005.

## 10 EARNINGS PER ORDINARY SHARE

Earnings per share information has not been shown in these accounts as the Company does not have any publicly traded equity shares.

## 11 GOODWILL

	2005 £m	2004 £m
Cost and net book value as at 1 January	272	269
Disposals <sup>(a)</sup>	(3)	–
Currency translation adjustments	73	3
<b>Cost and net book value as at 31 December</b>	<b>342</b>	<b>272</b>

(a) Relates to the MetroGAS S.A. deconsolidation. See note 6, page 29.

As at 31 December 2005, the majority of the goodwill recognised related to Comgas, which was defined as a cash generating unit (CGU) for impairment testing purposes. The Group tests goodwill annually for impairment or more frequently if there are indications that it might be impaired. No goodwill impairment has been recognised.

The recoverable amount of the CGU is determined from the value in use calculations, using cash flow projections based on approved financial plans covering a five year period. The growth rate assumptions used in the plans were based on past performance and management's expectations of market development. The annual growth rates used to determine cash flows beyond the five year period are between 5% and 10% and do not exceed the average long-term growth rate for the relevant markets.

The projected cash flows were discounted using a rate of 8% to arrive at value in use. The discount rate used is pre-tax and reflects risks relating to the T&D segment.

# Notes to the accounts continued

## 12 OTHER INTANGIBLE ASSETS

	Expenditure on unproved gas and oil reserves		Other(a)		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Cost as at 1 January	519	158	68	43	587	201
Additions	165	116	10	28	175	144
Acquisition of subsidiary undertakings	—	340	82 <sup>(b)</sup>	—	82	340
Disposals and transfers <sup>(c)</sup>	(212)	(92)	(11)	—	(223)	(92)
Currency translation adjustments	60	(3)	7	(3)	67	(6)
Cost as at 31 December	532	519	156	68	688	587
Amortisation as at 1 January	—	—	(2)	—	(2)	—
Charge for the year	—	—	(4)	(2)	(4)	(2)
Amortisation as at 31 December	—	—	(6)	(2)	(6)	(2)
Net book value as at 31 December	532 <sup>(d)</sup>	519 <sup>(d)</sup>	150	66	682	585

(a) Other represents the contractual rights in respect of the purchase of LNG, regasification services and related gas sales at Elba Island in the USA and development costs. The estimated aggregate amortisation expense from 2006 to 2010 is £4m per annum.

(b) Includes development costs acquired on the Brindisi LNG SpA purchase. See note 15, page 35.

(c) Disposals and transfers includes transfer to Property, plant and equipment of £142m (2004 £35m) (see note 13, page 33), and £70m (2004 £52m) in respect of unsuccessful exploration expenditure written off.

(d) Capitalised exploratory well costs included within expenditure on unproved gas and oil reserves:

	2005 £m	2004 £m	2003 £m
Cost as at 1 January <sup>(i)</sup>	137	100	171
Additions <sup>(ii)</sup>	93	55	4
Disposals	—	—	—
Transfer to Property, plant and equipment	(70)	—	(62)
Unsuccessful exploration wells written off <sup>(ii)</sup>	(21)	(15)	(3)
Currency translation adjustments	18	(3)	(10)
Cost as at 31 December	157	137	100

(i) Excludes North Caspian Sea PSA which was classified as held for sale and disposed of in 2005. In addition, the balance excludes Muturi PSC which was classified as held for sale and which was disposed of in 2004.

(ii) Excludes an amount of £46m (2004 £35m; 2003 £22m) which has been capitalised and subsequently written off in the same year.

The balance of well costs is further analysed as follows:

	As at 31 December 2005		As at 31 December 2004	
	£m	Number of wells	£m	Number of wells
Wells in areas requiring major capital expenditure before production could begin:				
Drilling programme not yet completed or completed within one year ago	95	18	43	6
Drilling programme completed between one and three years ago <sup>a)</sup>	5	4	42	9
Drilling programme completed more than three years ago <sup>b)</sup>	30	8	22	6
Wells in areas not requiring major capital expenditure before production could begin:				
Drilling programme not yet completed or completed within one year ago	27	19	23	6
Drilling programme completed between one and three years ago	—	—	7	1
	157	49	137	28

a) As at 31 December 2005, the following projects completed their drilling programmes between one and three years ago:

Project name	£m	Number of wells	Comments
Rosetta (Egypt)	4	3	Backfill to existing gas sales agreement
Buzzard N. Terrace (UK)	1	1	Backfill to existing development
	5	4	

b) As at 31 December 2005, the following projects completed their drilling programmes more than three years ago:

Project name	£m	Number of wells	Comments
WDD (Solar) (Egypt)	3	1	Development options under review
Gaza Marine	12	2	Development options under review
Palo Marcado (Bolivia)	8	3	Planned backfill to existing gas sales agreement
Itau (Bolivia) <sup>(1)</sup>	7	2	Development review pending transition to new Hydrocarbon Law
	30	8	

(1) There is a further £28m recognised in respect of the Itau licence, which is included within the expenditure on unproved gas and oil reserves balance of £532m.

### 13 PROPERTY, PLANT AND EQUIPMENT

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BG ENERGY HOLDINGS LIMITED 2006

	Land and buildings £m	Mains, services and meters £m	Plant and machinery £m	Motor vehicles and office equipment £m	Exploration and production £m	Total £m
Cost as at 1 January 2005	56	379	596	261	6 174	7 466
Additions	4	101	339	33	683	1 160
Disposals and transfers <sup>(a)</sup>	(8)	(183)	(43)	(22)	125 <sup>(b)</sup>	(131)
Currency translation adjustments	4	93	72	10	364	543
Reclassified as assets held for sale <sup>(c)</sup>	—	—	(25)	(2)	—	(27)
<b>Cost as at 31 December 2005</b>	<b>56</b>	<b>390</b>	<b>939</b>	<b>280</b>	<b>7 346</b>	<b>9 011</b>
Accumulated depreciation as at 1 January 2005	(37)	(44)	(196)	(120)	(2 560)	(2 957)
Provision for the year	(1)	(18)	(42)	(27)	(400)	(488)
Impairment losses recognised <sup>(d)</sup>	—	—	(14)	—	—	(14)
Disposals and transfers <sup>(a)</sup>	2	60	12	20	—	94
Currency translation adjustments	(1)	(25)	(11)	(5)	(56)	(98)
Reclassified as assets held for sale <sup>(c)</sup>	—	—	18	1	—	19
<b>Accumulated depreciation as at 31 December 2005</b>	<b>(37)</b>	<b>(27)</b>	<b>(233)</b>	<b>(131)</b>	<b>(3 016)</b>	<b>(3 444)</b>
<b>Net book value as at 31 December 2005<sup>(e)(f)(g)</sup></b>	<b>19</b>	<b>363</b>	<b>706</b>	<b>149</b>	<b>4 330</b>	<b>5 567</b>

	Land and buildings £m	Mains, services and meters £m	Plant and machinery £m	Motor vehicles and office equipment £m	Exploration and production £m	Total £m
Cost as at 1 January 2004	56	339	364	235	5 568	6 562
Additions	1	51	256	32	721	1 061
Disposals and transfers <sup>(a)</sup>	—	—	(21)	(3)	25 <sup>(b)</sup>	1
Currency translation adjustments	(1)	(11)	(8)	(3)	(227)	(250)
Acquisition of subsidiary undertakings	—	—	5	—	87	92
<b>Cost as at 31 December 2004</b>	<b>56</b>	<b>379</b>	<b>596</b>	<b>261</b>	<b>6 174</b>	<b>7 466</b>
Accumulated depreciation as at 1 January 2004	(36)	(32)	(180)	(106)	(2 276)	(2 630)
Provision for the year	(1)	(15)	(34)	(18)	(373)	(441)
Disposals and transfers <sup>(a)</sup>	—	—	18	1	—	19
Currency translation adjustments	—	3	—	3	89	95
<b>Accumulated depreciation as at 31 December 2004</b>	<b>(37)</b>	<b>(44)</b>	<b>(196)</b>	<b>(120)</b>	<b>(2 560)</b>	<b>(2 957)</b>
<b>Net book value as at 31 December 2004<sup>(e)(f)(g)</sup></b>	<b>19</b>	<b>335</b>	<b>400</b>	<b>141</b>	<b>3 614</b>	<b>4 509</b>

Details of BG Group's gas and oil reserves are given in BG Group plc's Annual Report and Accounts.

- (a) Disposals include £163m in respect of the disposals of BG Telecom Holdings Limitada, Iqara Telecom Limited, DirectNet Prestação de Serviços Limitada, and DirectNet Participações Limitada, and the deconsolidations of Gas Argentino (GASA) and MetroGAS. In 2004, disposals included £20m within plant and machinery in respect of the disposal of the Muturi PSC in Indonesia (see note 6, page 29).
- (b) Includes, within exploration and production, a transfer from Other intangible assets of £142m (2004 £35m) (see note 12, page 29). Also included in 2004, £5m in respect of the disposal of the Muturi PSC in Indonesia (see note 6, page 29).
- (c) Assets held for sale relate to the Group's Indian telecoms businesses (see note 19, page 36).
- (d) The carrying amount of plant and machinery has been reduced to its recoverable amount through recognition of an impairment loss of £14m. This loss has been included in the income statement relating to the Group's Indian telecoms businesses (see note 6, page 29).
- (e) The Group's net cost includes capitalised interest of £134m (2004 £108m) comprising exploration and production £110m (2004 £98m) and plant and machinery £24m (2004 £10m). A deferred tax liability is recognised in respect of this taxable temporary difference at current enacted rates.
- (f) Includes the net book value of decommissioning assets of £72m (2004 £77m) and expenditure on plant and machinery under construction of £245m (2004 £25m).
- (g) Assets capitalised and held under finance leases included in plant and machinery and exploration and production are:

	2005 £m	2004 £m
Cost	468	196
Accumulated depreciation	(14)	(5)
<b>Net book value</b>	<b>454</b>	<b>191</b>

# Notes to the accounts continued

## 14 INVESTMENTS

Investments represent long-term investments.

	Joint ventures		Associates		Total £m	Other investments £m
	Share of net assets £m	Loans £m	Share of net assets £m	Loans £m		
As at 31 December 2004	105	130	107	475	817	1
Investments	18	24	28	22	92	—
Disposals and transfers	—	(47)	—	(101)	(148)	—
Impairment losses recognised <sup>(a)</sup>	—	—	(8)	—	(8)	—
Currency translation adjustments	12	—	24	40	76	—
<b>As at 31 December 2005</b>	<b>135</b>	<b>107</b>	<b>151</b>	<b>436</b>	<b>829</b>	<b>1</b>
Retained profits less losses as at 31 December 2004	92	—	140	—	232	—
Effect of adoption of IAS 32 and IAS 39	—	—	(2)	—	(2)	—
Retained profits less losses as at 1 January 2005	92	—	138	—	230	—
Share of retained profits less losses during the year <sup>(b)</sup>	12	—	52	—	64	—
<b>Retained profits less losses as at 31 December 2005</b>	<b>104</b>	<b>—</b>	<b>190</b>	<b>—</b>	<b>294</b>	<b>—</b>
<b>Carrying value as at 31 December 2005</b>	<b>239</b>	<b>107</b>	<b>341</b>	<b>436</b>	<b>1 123</b>	<b>1</b>
Carrying value as at 31 December 2004	197	130	247	475	1 049	1

(a) The carrying amount of Gasoducto Cruz Del Sur S.A. has been reduced to its estimated recoverable amount through recognition of an impairment loss of £8m. Further information on impairment is given in note 6, page 29.

(b) Comprises share of post-tax results for the year of £160m, offset by share of dividends receivable by BG Energy Holdings of £96m.

Analysis of BG Energy Holdings' share of assets, liabilities, income and expenses in joint ventures and associates is shown below:

As at 31 December	Joint ventures		Associates	
	2005 £m	2004 £m	2005 £m	2004 £m
Share of assets – non-current assets	602	424	1 335	629
– current assets	256	167	346	182
	858	591	1 681	811
Share of liabilities – current liabilities	(319)	(72)	(279)	(237)
– non-current liabilities	(300)	(322)	(1 061)	(327)
	(619)	(394)	(1 340)	(564)
<b>Share of net assets</b>	<b>239</b>	<b>197</b>	<b>341</b>	<b>247</b>
Share of revenue	256	238	747	461
Share of operating costs	(171)	(156)	(590)	(350)
Share of operating profit	85	82	157	111
Share of finance costs	(20)	(23)	(21)	(11)
Share of tax	(20)	(8)	(21)	(26)
<b>Share of post-tax results</b>	<b>45</b>	<b>51</b>	<b>115</b>	<b>74</b>

Further information on principal subsidiary undertakings, joint ventures and associates is given in note 31, page 50.

## 15 ACQUISITION OF SUBSIDIARY UNDERTAKING

On 21 June 2005, BG Energy Holdings acquired the remaining 50% of the voting shares of Brindisi LNG SpA that it did not already own. Previously, the Group held 50% of the voting shares and this was treated as an investment accounted for using the equity method.

Details of the acquisition balance sheet and fair value consideration are as follows:

	Book value at acquisition £m	Fair value adjustments £m	Fair value at acquisition £m
<b>Assets</b>			
Non-current: Other intangible assets	65	17	82
Current: Trade and other receivables	8	—	8
Cash and cash equivalents	18	—	18
<b>Liabilities</b>			
Current: Trade and other payables	(36)	—	(36)
Non-current: Deferred tax liabilities	—	(6)	(6)
<b>Net assets</b>	<b>55</b>	<b>11</b>	<b>66</b>
<b>Satisfied by:</b>			
Carrying value of equity method investment			37
Cash			11
Cash consideration deferred until 2006			18
			<b>66</b>

The book value at acquisition reflects the book values under IFRS. The fair value adjustments relate primarily to contract and licence acquisition costs. Other intangible assets acquired relate to development expenditure. For details of Other intangible assets, see note 12, page 32.

If Brindisi LNG SpA had been acquired at the beginning of the year, it is estimated that BG Energy Holdings' revenue and consolidated profit before tax would not have been materially different. Profits of Brindisi LNG SpA for the year ended 31 December 2005 were £nil (2004 £nil), as costs have been capitalised during the development period.

## 16 INVENTORIES

	2005 £m	2004 £m
Raw materials and consumables	101	72
Finished goods for resale	84	27
	<b>185</b>	<b>99</b>

Inventories are stated at cost less provision for deterioration and obsolescence of £4m (2004 £3m).

Raw materials and consumables include inventories of oil and condensates, drilling and production materials, and other inventories. Finished goods for resale include inventories of gas and LNG in storage and in transit.

## 17 TRADE AND OTHER RECEIVABLES

	2005 £m	2004 £m
<i>Amounts falling due within one year</i>		
Trade receivables	674	347
Amounts owed by joint ventures and associates (see note 28, page 46)	37	18
Other receivables	160	195
Prepayments and accrued income	793	599
	<b>1 664</b>	<b>1 159</b>
<i>Amounts falling due after more than one year</i>		
Other receivables	52	46
<b>Total receivables</b>	<b>1 716</b>	<b>1 205</b>

## Notes to the accounts continued

### 17 TRADE AND OTHER RECEIVABLES continued

Trade receivables are stated net of provisions for doubtful debts, and the movement in this provision is as follows:

	2005 £m	2004 £m	2003 £m
Provision as at 1 January	19	48	59
Charge/(credit) for the year	1	(5)	2
Transfers and other adjustments	(5)	(24)	(13)
Provision as at 31 December	15	19	48

The Group has no significant concentration of credit risk with respect to trade receivables, with exposure spread over a large number of counterparties and customers.

### 18 CASH AND CASH EQUIVALENTS

	2005 £m	2004 £m
Cash at bank and in hand	49	132
Cash equivalent investments	1 467	208
	1 516	340

Cash equivalent investments are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The effective interest rates of the Group's investments as at 31 December 2005 were between 2.5% and 4.9% (2004 1% and 18%). For further information on the interest rate composition of the Group's financial assets see note 21, page 39.

### 19 ASSETS HELD FOR SALE

The major classes of assets and liabilities classified as held for sale are as follows:

	2005 £m	2004 £m
Intangible assets	—	498
Property, plant and equipment	8	—
Investments accounted for using the equity method	—	10
Trade and other receivables	2	22
Assets classified as held for sale	10	530
Trade and other payables	(3)	(67)
Liabilities associated with assets classified as held for sale	(3)	(67)
Net assets classified as held for sale	7	463

During 2005, management committed to make a strategic withdrawal from all of the Group's telecoms businesses, included within the Other activities segment. As at 31 December 2005, the Group's Brazilian telecoms businesses had been sold and the Indian telecoms business was reclassified as 'held for sale'. An impairment loss of £14m has been recognised as a result of this reclassification. Further details are shown in note 6, page 29.

In 2004, assets held for sale included £453m in the E&P segment representing the assets associated with the North Caspian Sea PSA; the sale of which was completed on 6 April 2005 and £10m in the T&D segment representing assets associated with Premier Transmission Limited; the sale of which was completed on 18 March 2005. Further details on these disposals are shown in note 6, page 29.

## 20 BORROWINGS

The Group's treasury policy and other borrowings information disclosed on pages 12 and 13.

	2005 £m	2004 £m
<i>Amounts falling due within one year</i>		
Other loans – commercial paper	20	251
– bonds	16	279
Bank loans and overdrafts	33	46
Obligations under finance leases	2	1
	71	577
<i>Amounts falling due after more than one year</i>		
Other loans – bonds	543	404
Bank loans and overdrafts	168	94
Obligations under finance leases	513	264
	1 224	762
Gross borrowings	1 295	1 339

The carrying values in respect of 2005 include an £11m adjustment (increase in borrowings) for highly effective fair value hedges as required by IAS 39, 'Financial Instruments: Recognition and Measurement'. Further information on the Group's hedging activities can be found in note 21, page 39. The 2004 comparatives are prepared under the Group's previous GAAP which is not consistent with the requirements of IAS 39. Comparatives are stated after the impact of currency derivatives. The 2005 carrying values do not include the impact of currency derivatives as these are included within the disclosures for financial instruments in note 21, page 39.

As at 31 December 2005, borrowings of £42m (2004 £42m) were secured against trade receivables of the Group's subsidiary undertaking Comgas. Further details of guarantees given by the Group are set out in note 27, page 44 and note 31, page 50.

### MATURITY PROFILE OF THE GROUP'S BORROWINGS

The following tables analyse the Group's gross borrowings. These are repayable as follows:

#### Gross borrowings (including obligations under finance leases)

Amounts due:	2005 £m	2004 £m
Within one year	71	577
Between one and two years	72	14
Between two and three years	237	45
Between three and four years	82	150
Between four and five years	27	54
After five years	806	499
	1 295	1 339

#### Obligations under finance leases

Amounts due:	Minimum lease payments		Obligations under finance leases	
	2005 £m	2004 £m	2005 £m	2004 £m
Within one year	35	19	2	1
Between one and two years	35	20	2	1
Between two and three years	34	21	2	1
Between three and four years	34	21	3	2
Between four and five years	34	21	4	2
After five years	913	493	502	258
Less: future finance charges	(570)	(330)	–	–
	515	265	515	265

The Group has finance leases over a number of existing and new-build LNG ships. These leases expire between 2020 and 2038.

# Notes to the accounts continued

## 20 BORROWINGS continued

The following tables analyse the currency and interest rate composition of the Group's gross borrowings:

### CURRENCY COMPOSITION OF THE GROUP'S BORROWINGS

	2005 £m	2004 £m
Currency:		
Sterling	729	—
US Dollars	396	1 157
Euros	—	78
Brazilian Reals	115	99
Other	55	5
	1 295	1 339

The Group's borrowings are denominated in a number of foreign currencies and as described in the Operating and financial review these are substantially all swapped into US Dollars. The disclosure above does not include the impact of the currency derivatives for the current year as these are separately recognised under IAS 39 and presented in note 21, page 39. As at 31 December 2005, the Group had swapped £704m of pound Sterling borrowings into US Dollars, £57m of US Dollar borrowings into Brazilian Reals and £47m of other currencies into US Dollars. The 2004 comparatives are prepared under the Group's previous GAAP which is not consistent with the requirements of IAS 39. Comparatives are stated after the impact of currency derivatives.

### INTEREST RATE COMPOSITION OF THE GROUP'S BORROWINGS

For the purpose of the table below, debt with a maturity within one year, such as commercial paper is treated as floating rate debt.

	2005 £m	2004 £m
Basis:		
Fixed rate	128	219
Floating rate	1 167	1 120
	1 295	1 339

The Group has issued fixed rate debt, but as part of its interest rate risk strategy discussed on pages 12 and 13 has entered into interest rate swaps that are designated as fair value hedges of interest rate risk. The disclosure above is presented after the effect of these interest rate swaps. Further information on the fair value of the interest rate swaps is included in note 21, page 39.

The effective post-swap interest rates as at 31 December 2005 were between 2% and 19% (2004 1% and 22%). For short-term borrowings the effective post-swap interest rates were between 4% and 19% (2004 1% and 14%). Fixed rate borrowings that are not part of fair value hedge relationships mature between 2007 and 2023 and the interest rates are not subject to re-pricing prior to maturity.

The Group has undrawn committed borrowing facilities in respect of which all conditions have been met, as follows:

	2005 £m	2004 £m
Expiring:		
Within one year	441	296
Between one and two years	—	36
Between two and three years	—	288
Between three and four years	322	—
	763	620



## 21 FINANCIAL INSTRUMENTS

### TREASURY INSTRUMENTS

As part of its business operations, the Group is exposed to risks arising from fluctuations in interest rates and exchange rates. The Group uses derivative financial instruments (derivatives) in order to manage exposures of this type in accordance with Treasury policies. The Group enters into interest rate swaps to manage the composition of floating and fixed rate debt. The Group enters into forward exchange contracts and currency swaps to hedge certain foreign currency cash flows, and to manage the currency composition of its assets and liabilities. Certain agreements are combined foreign currency and interest rate swap transactions.

The Group's policy is not to use interest rate and exchange rate derivatives for speculative purposes.

### COMMODITY INSTRUMENTS

Within the ordinary course of business the Group 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 Group's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS 39.

Certain long-term gas sales contracts in the UK have terms within the contract that constitute written options and accordingly they fall within the scope of IAS 39. 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). They are recognised in the balance sheet at fair value with movements in fair value recognised in the income statement.

Certain short-term market traded contracts for the purchase and subsequent resale of third-party commodities are within the scope of IAS 39 and are recognised in the balance sheet at fair value with movements in fair value recognised in the income statement. The Group uses various commodity based derivative instruments to manage some of the risks arising from fluctuations in commodity prices. Such contracts include physical and net-settled forwards, futures, swaps and options. Where these derivatives have been designated as cash flow hedges of underlying commodity price exposures, certain gains and losses attributable to these instruments are deferred in equity and subsequently recognised in the income statement when the underlying hedged transaction crystallises. Commodity derivatives that are not part of a hedging relationship are recognised in the balance sheet at fair value with movements in fair value recognised in the income statement. These have all been included within other commodity derivatives in the following tables.

### VALUATION

The Group calculates the fair value of interest rate and currency exchange rate derivative instruments by using market valuations where available or, where not available, by discounting all future cash flows by the market yield curve at the balance sheet date.

The amount for commodity contracts and commodity related derivatives is based on forward price curves for a number of gas and oil contracts. Where market quoted forward price curves are unavailable the fair value has been determined using the Group's forward planning assumptions for the price of gas, other commodities and indices.

One of the assumptions underlying the fair value of long-term commodity contracts is that the gas market is liquid in the UK for two years. Beyond this period a seasonally adjusted UK gas price of 31p per therm has been used along with a US\$40 barrel Brent oil price and an electricity price of £28 per megawatt hour. The fair values of the long-term commodity contracts are then discounted using a risk-free interest rate of 5%. Under these assumptions, the change in fair value of commodity contracts charged to the income statement in the year is £224m. A 10% change in the assumptions would result in an additional charge/(credit) to the income statement of approximately £90m for the year ended 31 December 2005.

### AMOUNTS RECOGNISED IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

	2005		2004	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate derivatives	15	(15)	—	—
Currency exchange rate derivatives <sup>(a)</sup>	2	(3)	—	—
Cross-currency interest rate derivatives <sup>(a)</sup>	71	(39)	—	—
Long-term UK gas contracts	—	(599)	—	—
Other commodity derivatives	6	(57)	—	—
	94	(713)	—	—

(a) Under the Group's previous GAAP, currency exchange rate derivatives were used to swap the Group's borrowings into US Dollars. The amounts recognised in respect of currency derivatives in the prior year were included in the book value of the borrowings.

As at 31 December 2005, margin payments of £40m were deposited with the Group's brokers in respect of commodity derivatives traded on regulated exchanges.

# Notes to the accounts continued

## 21 FINANCIAL INSTRUMENTS continued

### AMOUNTS RECOGNISED IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS continued

Derivative financial instruments are classified within current assets and current liabilities unless they form part of a designated hedge relationship, when they are classified according to the period in which the hedging relationship is expected to expire. Included within current liabilities are the long-term UK gas contracts which expire between 2007 and 2014, and certain cross-currency interest rate derivatives that are not part of a formal hedging relationship which expire between 2007 and 2030.

Expiring:	2005		2004	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Within one year	10	(711)	—	—
Between one and five years	50	—	—	—
After five years	34	(2)	—	—
	94	(713)	—	—

The notional principal amounts of derivative financial instruments are as follows:

Expiring:	Within one year £m	Between one and five years £m	After five years £m	2005 Total £m	2004 Total £m
Interest rate derivatives	—	150	447	597	579
Currency exchange rate derivatives	99	21	—	120	376
Cross-currency interest rate derivatives	18	303	722	1 043	881

The notional principal amounts of long-term UK gas contracts are £605m and these contracts expire between 2007 and 2014. The notional principal amounts of other commodity derivatives are £3 082m and these expire within two years. These amounts represent the gross combination of notional principals relating to all purchase and sale commodity derivatives. These notional principal amounts give an indication of the scale of derivatives held, but do not reflect the risk that the Group is exposed to from their use.

### FAIR VALUE ADJUSTMENTS ON DERIVATIVE FINANCIAL INSTRUMENTS

Included in the income statement:

	2005 £m	2004 £m	2003 £m
Cross-currency interest rate derivatives not in a designated hedge relationship	(19)	—	—
Interest rate derivatives designated as fair value hedges	3	—	—
Cross-currency interest rate derivatives designated as fair value hedges	3	—	—
Long-term UK gas contracts (see note 6, page 29)	(224)	—	—
Other commodity derivatives not in a designated hedge relationship <sup>(a)</sup>	(29)	—	—
	(266)	—	—

(a) Includes £(13)m recognised as Other operating income.

### HEDGE ACCOUNTING

As described in the Group's treasury policy on pages 12 to 13, BG Energy Holdings is exposed to interest rate, foreign currency and commodity price risks. Certain derivative and non-derivative instruments are designated as hedges in line with the Group's risk management policies.

#### Fair Value Hedges

As at 31 December 2005, the Group held a number of interest rate swaps designated as hedges of the fair value risk associated with the Group's fixed rate debt. The fixed rate loans and the interest rate swaps have the same critical terms to ensure that they are an effective hedge under IAS 39. The fair value of derivative instruments designated as fair value hedges outstanding as at 31 December 2005 is £20m. As at 31 December 2005, basis adjustments of £(11)m have been made to borrowings in respect of highly effective fair value hedges.

#### Cash Flow Hedges

As at 31 December 2005, the Group held a number of forward exchange contracts designated as hedges of highly probable forecast purchases in foreign currencies. As at 31 December 2005, basis adjustments of £1m had been made to non-current assets in respect of highly effective cash flow hedges. The Group also has forward commodity contracts designated as hedges of highly probable forecast sales. The cash flow hedges were assessed as highly effective and an unrealised pre-tax loss of £29m was deferred in equity as at 31 December 2005. These transactions are expected to occur in the 12 months following the year end and the associated gains and losses deferred in equity will be released to the income statement as the underlying transaction occurs. The fair value of derivative instruments designated as cash flow hedges outstanding as at 31 December 2005 is £(27)m.

Note 26, page 44 identifies the amounts that have been transferred from equity to the income statement in respect of transactions completed during the year.

**21 FINANCIAL INSTRUMENTS** continued**HEDGE ACCOUNTING** continued**Hedges of net investments in foreign operations**

As at 31 December 2005, certain currency exchange rate derivatives have been designated as hedges of net investments in the Group's foreign operations, and are being used to hedge the Group's exposure to foreign exchange risk on these investments. Fair value movements in the designated currency exchange rate derivatives are transferred to equity to offset the gains and losses arising on the retranslation of the net investments in foreign subsidiaries. The pre-tax loss on highly effective designated currency exchange related derivatives deferred within equity as at 31 December 2005 is £95m. The fair value of derivative instruments designated as hedges of net investments in foreign operations outstanding as at 31 December 2005 is £62m.

**FINANCIAL ASSETS (EXCLUDING SHORT-TERM DEBTORS)**

The Group's financial assets consist of cash and cash equivalents of £1 516m (2004 £340m), loans made to joint ventures and associates of £543m (2004 £605m), other fixed asset investments of £1m (2004 £1m) and debtors due after more than one year of £52m (2004 £46m).

The currency and interest rate profile of financial assets is as follows:

	Fixed rate financial assets £m	Floating rate financial assets £m	Non interest bearing assets £m	2005 Total £m	2004 Total £m
Currency:					
Sterling	107	1 284	–	1 391	252
US Dollars	–	536	87	623	631
Euros	–	–	7	7	18
Other	–	87	4	91	91
	107	1 907	98	2 112	992

The effective interest rates on the loans to joint ventures and associates as at 31 December 2005 were between 0% and 9.95% (2004 0% and 9.95%). The interest rates on those Group financial assets which are at floating rates are determined by the prevailing London Interbank Offered Rate (LIBOR) for the relevant currency and maturity at the time of determination plus or minus an agreed margin. As at 31 December 2005, £107m (2004 £116m) of fixed rate loans to joint ventures and associates expire in 2016 and have effective interest rates of between 7.25% and 9.95%. The maturity profile of the remaining loans to joint ventures and associates cannot be practicably estimated as repayments are based on the performance of the individual joint venture or associate.

**FAIR VALUES OF FINANCIAL INSTRUMENTS**

	2005		2004	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings	(71)	(71)	(577)	(505)
Long-term borrowings	(1 224)	(1 278)	(762)	(835)
Cash and cash equivalents	1 516	1 516	340	340
Short-term debtors	844	844	600	600
Short-term creditors	(1512)	(1512)	(597)	(597)
Other financial liabilities	(6)	(6)	(3)	(3)
Other financial assets	596	615	652	675

For the purpose of the table above, the 2004 comparatives do not include the effect of adopting IAS 39 on 1 January 2005. The fair value of cash and cash equivalents (current asset investments and cash at bank and in hand), short-term debtors and short-term creditors approximates book value due to the short maturity of these instruments. The fair values of the fixed rate borrowings and joint venture and associate loans have been estimated based on quoted market prices where available, or discounting by the market curve. The fair values of floating rate borrowings and joint venture and associate loans approximate book value as interest rates on these instruments reset on a frequent basis. Fair values have not been obtained for the non-interest bearing loans to joint ventures and associates as repayment of these loans are linked to the performance of the individual joint venture or associate and it is therefore not practicable to assign fair values.

**CREDIT RISK**

The Group's counterparty exposure (after the impact of any netting arrangements) under interest rate related derivatives was £15m (2004 £31m), currency exchange rate related derivatives £66m (2004 £166m) and commodity related derivatives £22m (2004 £nil).

**LIQUIDITY RISK**

The Group limits the amount of borrowings maturing within any specific period and the Group's financial assets are primarily held as short-term, highly liquid investments that are readily convertible into known amounts of cash. These measures keep liquidity risk low.

# Notes to the accounts continued

## 21 FINANCIAL INSTRUMENTS continued

### FRS 13 'FINANCIAL INSTRUMENTS' DISCLOSURES

As set out in the Principal accounting policies on page 8, the financial information provided in respect of financial instruments as at 31 December 2004 is based on the Group's accounting policies under UK GAAP and does not take into account the requirements of IAS 32 and IAS 39. FRS 13 requires certain additional disclosures in relation to the currency analysis of the Group's net assets for the comparative period and these are provided below.

The currency composition of the Group's net assets as at 31 December 2004 (after the effect of currency derivatives) consisted of net assets denominated in pounds Sterling of £1 242m, US Dollars of £2 360m and other currencies of £988m.

The currency exposure as at 31 December 2004 arising on the Group's net monetary assets/(liabilities) denominated in a currency other than the functional currency of the entity recognising the asset/(liability) were for pound Sterling functional currency entities US Dollar net monetary assets of £75m and net monetary liabilities of £1m denominated in other currencies. US Dollar functional currency entities had net monetary assets of £2m denominated in other currencies. Entities with other functional currencies had pound Sterling net monetary liabilities of £3m and US Dollar net monetary assets of £50m.

## 22 TRADE AND OTHER PAYABLES

	2005 £m	2004 £m
<i>Amounts falling due within one year</i>		
Trade payables	419	318
Amounts owed to parent undertaking	1 009	243
Amounts owed to joint ventures and associates (see note 28, page 43)	109	65
Other payables <sup>(a)</sup>	75	26
Accruals and deferred income	696	557
	2 308	1 209
<i>Amounts falling due after more than one year</i>		
Other payables	37	33
Accruals and deferred income	31	56
	68	89
<b>Total payables</b>	<b>2 376</b>	<b>1 298</b>

(a) Includes £12m (2004 £6m) relating to cash-settled share-based payment transactions, of which £3m (2004 £1m) relates to awards that have already vested, and £25m (2004 £18m) for bonuses provided for payments to eligible employees in 2006 under bonus schemes, including the BG Group Annual Incentive Scheme (AIS).

## 23 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Decommissioning		Other		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
As at 1 January	236	238	89	49	325	287
Charge for the year	—	—	6	13	6	13
Unwinding of discount	11	10	—	—	11	10
Transfers and other adjustments	13	(12)	24	27	37	15
Unused provisions credited to the income statement	—	—	(12)	—	(12)	—
<b>As at 31 December</b>	<b>260</b>	<b>236</b>	<b>107</b>	<b>89</b>	<b>367</b>	<b>325</b>

A brief description of each provision together with estimates of the timing of expenditure is given below:

### DECOMMISSIONING COSTS

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on engineering estimates and reports, including a review by an independent expert. 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 2006 and 2040. BG Energy Holdings periodically completes a full review of its exploration and production decommissioning liabilities. Transfers and other adjustments include changes to existing provisions following the review.

### OTHER

The balance as at 31 December 2005 includes restructuring costs arising from the renegotiation of power purchase agreements at Premier Power Limited of £12m (2004 £13m), field-related payments of £9m (2004 £11m), deferred consideration on the acquisition of Brindisi LNG SpA of £18m (2004 £nil), insurance costs of £12m (2004 £nil) and provisions for onerous contracts £11m (2004 £23m). The payment dates are uncertain but are expected to be between 2006 and 2019.

## 24 DEFERRED TAX

Deferred taxes are calculated in full on temporary differences under the liability method using currently enacted or substantively enacted tax rates. The net movement in deferred tax assets and liabilities is shown below:

	2005 £m	2004 £m
As at 31 December	839	757
Effect of adoption of IAS 39	(153)	—
Acquisition of subsidiary	6	82
Charge/(credit) for the year	(49)	43
Fair value movements on cash flow hedges taken to equity	(31)	—
Charge/(credit) to equity in respect of share-based payments	(10)	—
Currency translation adjustments and other movements	47	(43)
<b>As at 31 December</b>	<b>649</b>	<b>839</b>

An analysis of the movements in deferred tax assets and liabilities is shown below. Deferred tax assets and liabilities are only offset if they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

	Accelerated capital allowances £m	Deferred petroleum revenue tax £m	Provisions £m	Retirement benefit obligations £m	Unused tax losses and tax credits £m	Unremitted earnings £m	Other temporary differences £m	Total £m
<b>Deferred tax assets</b>								
As at 31 December 2004	(26)	—	—	(36)	—	—	(6)	(68)
Effect of adoption of IAS 39	—	—	—	—	—	—	(2)	(2)
As at 1 January 2005	(26)	—	—	(36)	—	—	(8)	(70)
Charge/(credit) for the year	—	—	—	(4)	—	—	7	3
Charge/(credit) to equity in respect of share-based payments	—	—	—	—	—	—	(10)	(10)
Currency translation adjustments and other movements	(4)	—	—	—	—	—	(3)	(7)
<b>Deferred tax assets as at 31 December 2005</b>	<b>(30)</b>	<b>—</b>	<b>—</b>	<b>(40)</b>	<b>—</b>	<b>—</b>	<b>(14)</b>	<b>(84)</b>
<b>Deferred tax liabilities</b>								
As at 31 December 2004	898	40	(24)	—	(83)	51	25	907
Effect of adoption of IAS 39	—	—	—	—	—	—	(151)	(151)
As at 1 January 2005	898	40	(24)	—	(83)	51	(126)	756
Acquisition of subsidiary	6	—	—	—	—	—	—	6
Charge/(credit) for the year	(53)	25	2	—	80	4	(110)	(52)
Charge/(credit) to equity	—	—	—	—	—	—	(31)	(31)
Currency translation adjustments and other movements	44	—	4	—	—	—	6	54
<b>Deferred tax liabilities as at 31 December 2005</b>	<b>895</b>	<b>65</b>	<b>(18)</b>	<b>—</b>	<b>(3)</b>	<b>55</b>	<b>(261)</b>	<b>733</b>
<b>Net deferred tax liability as at 31 December 2005</b>	<b>865</b>	<b>65</b>	<b>(18)</b>	<b>(40)</b>	<b>(3)</b>	<b>55</b>	<b>(275)</b>	<b>649</b>
Net deferred tax liability as at 31 December 2004	872	40	(24)	(36)	(83)	51	19	839

The deferred tax asset of £84m (2004 £68m) is expected to be recovered after more than 12 months. The deferred tax liability of £733m (2004 £907m) is shown after the offset of certain deferred tax assets relating to the same fiscal authority; the liability prior to such offset is £1 138m (2004 £1 083m). The net amount expected to be settled after more than 12 months is £735m (2004 £987m).

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £1 032m (2004 £802m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences, unutilised tax losses and unused tax credits to the extent that realisation of the related tax benefit through future taxable income is probable. The Group has unrecognised deductible temporary differences of £62m (2004 £54m) and unrecognised tax losses of £116m (2004 £69m) to carry forward against future taxable income. To the extent unutilised, £11m of these losses will expire between 2006 and 2011. In addition, the Group has unrecognised capital losses of £252m (2004 £252m); these tax losses can only be offset against specific types of future capital gains. The Group also has unrecognised overseas tax credits of £137m (2004 £73m).

# Notes to the accounts continued

## 25 CALLED UP SHARE CAPITAL

	Authorised				Allotted and fully paid up			
	2005 Number of shares m	2004 Number of shares m	2005 £m	2004 £m	2005 Number of shares m	2004 Number of shares m	2005 £m	2004 £m
Equity:								
Ordinary shares of £1 each	5 000	5 000	5 000	5 000	2 898	2 898	2 898	2 898

## 26 STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

### THE GROUP

	Called up share capital £m	Share premium account £m	Hedging reserve £m	Translation reserve(a) £m	Retained Earnings(b) £m	Total £m	Minority interest £m	Total £m
As at 1 January 2004	2 898	316	—	(34)	936	4 116	(9)	4 107
Profit for the year	—	—	—	—	895	895	28	923
Dividends	—	—	—	—	(569)	(569)	(2)	(571)
Currency translation adjustments	—	—	—	(139)	—	(139)	3	(136)
As at 31 December 2004 as reported	2 898	316	—	(173)	1 262	4 303	20	4 323
Effect of adoption of IAS 39 — prior year adjustment	—	—	(2)	(30)	(204)	(236)	(2)	(238)
As at 1 January 2005 restated	2 898	316	(2)	(203)	1 058	4 067	18	4 085
Profit for the year	—	—	—	—	1 551	1 551	40	1 591
Tax in respect of share schemes	—	—	—	—	10	10	—	10
Dividends	—	—	—	—	(900)	(900)	(29)	(929)
Net fair value gains/(losses) on cash flow hedges	—	—	(45)	—	—	(45)	—	(45)
Transfers to income statement on cash flow hedges	—	—	18	—	—	18	—	18
Tax on cash flow hedges	—	—	9	—	—	9	—	9
Net fair value gains/(losses) on net investment hedges	—	—	—	(74)	—	(74)	—	(74)
Tax on net investment hedges	—	—	—	22	—	22	—	22
Currency translation adjustments	—	—	—	514	—	514	14	528
Disposal of minority interest	—	—	—	—	—	—	55	55
As at 31 December 2005	2 898	316	(20)	259	1 719	5 172	98	5 270

(a) Includes currency translation adjustments of £11m (2004 £(65)m; 2003 £(32)m) relating to joint ventures and associates.

(b) Includes retained earnings in respect of joint ventures and associates of £253m (2004 £199m; 2003 £154m).

## 27 COMMITMENTS AND CONTINGENCIES

### A) CAPITAL EXPENDITURE

As at 31 December 2005, the Group had placed contracts for capital expenditure amounting to £1 053m (2004 £1 525m). As at 31 December 2005, BG Energy Holdings' joint ventures and associates had placed contracts for capital expenditure, BG Energy Holdings' share of which amounted to £69m (2004 £58m), of which £2m (2004 £13m) is guaranteed by the Group.

### B) DECOMMISSIONING COSTS

BG Energy Holdings has contingent liabilities in respect of the future decommissioning costs of gas and oil assets disposed of to third parties should they fail to meet their remediation obligations. While the amounts of future costs could be significant, the Group has obtained indemnities and/or letters of credit against the estimated amount of these potential liabilities.

### C) FUTURE WELL COSTS

As at 31 December 2005, certain petroleum licences granted to BG Energy Holdings contained outstanding obligations to drill exploration wells, some of which were firm commitments and others contingent. The cost attributable to the Group of drilling such firm commitment wells is estimated to be £99m (2004 £68m).

### D) GUARANTEES

The Group has guaranteed its share of the repayment of principal, any associated premium and interest on certain loans taken out by joint ventures and associates. As at 31 December 2005, the pound Sterling equivalent amounted to £437m (2004 £258m). BG Energy Holdings has guaranteed the repayment of principal, any associated premium and interest on loans due by its subsidiary undertakings. As at 31 December 2005, the pound Sterling equivalent amounted to £969m (2004 £821m).

**27 COMMITMENTS AND CONTINGENCIES** continued**E) LEASE COMMITMENTS**

Commitments under operating leases as at 31 December were as follows:

	Land and buildings		Other		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Amounts due:						
Within one year	13	12	44	38	57	50
Between one and two years	11	10	43	37	54	47
Between two and three years	10	9	29	36	39	45
Between three and four years	9	9	26	25	35	34
Between four and five years	9	8	12	23	21	31
Thereafter	111	122	1	12	112	134
<b>Total commitments under operating leases at 31 December</b>	<b>163</b>	<b>170</b>	<b>155</b>	<b>171</b>	<b>318</b>	<b>341</b>

Certain expenditure under operating leases is recovered from third parties under partnership agreements.

At 31 December 2005, the Group had entered into commitments under finance leases commencing after that date of £217m (2004 £142m).

Included within land and buildings is an operating lease over BG Energy Holdings' headquarters, which are located at 100 Thames Valley Park Drive, Reading, Berkshire RG6 1PT, and where it leases and occupies office space with a gross internal area of approximately 21 000 square metres. This lease expires in 2026.

Included within Other are operating leases over LNG ships. The last of these leases expires in 2010.

The Group leases or sub-leases three of its LNG ships to third parties. One of these ships is leased to the Group under a lease included in the table above. The remaining two ships are owned by the Group and are included in Property, plant and equipment in note 13, page 33. Total future minimum lease rentals receivable by the Group under these leases were £165m at 31 December 2005 (2004 £172m).

**F) LEGAL PROCEEDINGS**

First Gas Power Corporation (FGPC), in which the Group has a 40% shareholding, is in dispute with Siemens AG, Siemens Power Generation, Asia Pacific Sdn Bhd and Siemens Inc. (collectively Siemens) relating to Siemens' construction for FGPC of the Santa Rita power station. The dispute arises from delays in project completion. FGPC claimed liquidated damages of approximately £62m from Siemens and withheld approximately £59m from its milestone payments to Siemens. Siemens claimed that FGPC was not entitled to any remedy (including additional damages) for the delay in completion of the project and sought payment of the amounts withheld by FGPC and an additional £34m for costs, loss of profit and finance charges arising from the delay. FGPC counterclaimed for defects in the works in the sum of approximately £47m. Both Siemens and FGPC claimed interest from each other and the legal costs involved in pursuing claims and counterclaims. The dispute was submitted to arbitration in January 2003 and was heard in three parts. Legal and preliminary issues were heard at part 1 in March 2004 and the award was favourable to FGPC. In part 2, the arbitral tribunal considered the merits of Siemens' claims and the liquidated damages issues during hearings held in March and April 2005. On 1 November 2005, the arbitral tribunal published its second interim award in relation to these matters and awarded and declared that Siemens was entitled to certain extensions of time and/or suspension of liquidated damages, and that FGPC was entitled to certain liquidated damages for delay in the total sum of £62m. FGPC's counterclaims were heard in September 2005, the third part of the hearing. On 21 April 2006 the arbitral tribunal published its third interim award in relation to the merits of FGPC's counterclaims, as well as all remaining issues from part 2. The tribunal awarded FGPC approximately £6.1m (including the £3m of unpaid liquidated damages) for its counterclaims and Siemens approximately £4.6m for its remaining cost claims. The sums awarded are exclusive of interest and legal costs, which will be dealt with in a final award if not agreed.

In addition, various Group undertakings are parties to legal actions and claims which arise in the ordinary course of business. While the outcome of some of these matters cannot readily be foreseen, it is considered that they will be resolved without material effect on the financial position or results of operations.

**G) OTHER**

Other commitments and contingencies include purchase obligations, indemnities to third parties and guarantees in respect of contractual obligations.

Purchase obligations included contracts for the purchase of long-term LNG supplies and other purchase commitments. Amounts payable under these contracts are as follows: less than one year £2 609m (2004 £1 527m); between one and three years £4 475m (2004 £3 118m); between three and five years £3 824m (2004 £2 980m); and thereafter £24 160m (2004 £17 384m). These commitments are calculated using the closing UK£/US\$ exchange rate and are primarily indexed to gas market indices. At 31 December 2005, these commitments were primarily calculated using a gas price of US\$6.00/mmbtu (2004 US\$4.75/mmbtu).

Also included within purchase obligations are service contracts for the provision of capacity at Lake Charles and Elba Island, two LNG importation terminals in the USA. Amounts payable under these contracts are due as follows: less than one year £108m (2004 £53m); between one and three years £216m (2004 £192m); between three and five years £222m (2004 £195m) and thereafter £1 443m (2004 £1 385m). BG Energy Holdings Limited has guaranteed these commitments.

## Notes to the accounts continued

### 27 COMMITMENTS AND CONTINGENCIES continued

#### 6) OTHER continued

The amount of other contingencies and commitments as at 31 December 2005 (mainly the provision of indemnities to third parties in respect of the Company and its subsidiary undertakings, in the normal course of business) amounted to £1 628m (2004 £2 334m). Within the total, £593m (2004 £662m) related to guarantees and indemnities given in respect of a number of exploration and production developments and £462m (2004 £1 080m) related to a number of downstream investments, most of which expire after five years.

The exploration and production indemnities include guarantees, contingencies and commitments relating to various fields and activities in the exploration and production segment.

In addition, £421m (2004 £421m) related to an indemnity in respect of warranties given on the sale of a business which expire in 2008. This amount represents the maximum sum payable. The balance related to various guarantees and contingencies arising in the ordinary course of business.

BG Energy Holdings' share of other commitments and contingencies in respect of its joint ventures and associates amounted to £41m (2004 £56m).

### 28 RELATED PARTY TRANSACTIONS

BG Energy Holdings provides goods and services to, and receives goods and services from, its joint ventures and associates. In the year ended 31 December 2005, the Group received and incurred the following income and charges respectively:

	2005		2004		2003	
	Income £m	Charges £m	Income £m	Charges £m	Income £m	Charges £m
LNG	91	(538)	66	(387)	85	(229)
Shipping	24	(22)	24	(23)	27	(20)
Other	7	(4)	4	(18)	1	—
	122	(564)	94	(428)	113	(249)

As at 31 December 2005, a debtor balance of £37m (2004 £18m) (see note 17, page 35) and a creditor balance of £109m (2004 £65m) (see note 22, page 42) were outstanding with these parties. In addition, BG Energy Holdings provides financing to some of these parties by way of loans. As at 31 December 2005, loans of £543m (2004 £605m) were due from joint ventures and associates. These loans are accounted for as part of BG Energy Holdings' investment in joint ventures and associates and disclosed in note 14, page 34. Interest of £21m (2004 £16m; 2003 £17m) was charged on these loans during the year at interest rates of between 0% and 9.95% (2004 0% and 9.95%). The maximum debt outstanding during the year was £624m (2004 £683m).

In December 2005, MetroGAS was deconsolidated. Prior to this MetroGAS was a non wholly-owned subsidiary undertaking. During 2005, MetroGAS incurred charges of £18m (2004 £18m; 2003 £17m) from another of its shareholders, in respect of trading transactions. As at 31 December 2005, a balance of £1m (2004 £2m) was outstanding with this party. During 2005, Comgas, a non wholly-owned subsidiary undertaking, received charges of £1m (2004 £1m; 2003 £1m) from another of its shareholders, in respect of trading transactions. As at 31 December 2005, a balance of £nil (2004 £nil) was outstanding with this party.

William Backhouse, the son of Peter Backhouse, a non-executive Director of the Company's parent undertaking, BG Group plc, is employed by BG International Limited, a wholly-owned subsidiary of the Company, under BG Group's Graduate Development Programme and has a contract of employment with BG International Limited which was made during the financial year. Peter Backhouse is regarded as interested in the contract of employment by virtue of his relationship with William Backhouse. The terms and conditions of William Backhouse's employment are in line with others employed under the Graduate Development Programme.



## 29 PENSIONS AND POST-RETIREMENT BENEFITS

The majority of the Group's UK employees participate in the BG Pension Scheme (the Scheme). The Scheme is of the defined benefit type. It is exempt approved, under the Income and Corporation Tax Act 1988, Part XIV, Chapter 1, 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.

Employees 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 2005, the employers' contribution rate was 19.9% of pensionable pay. Following the formal actuarial valuation at 31 March 2005 this will be increased to 25.2% of pensionable pay with effect from 1 April 2005 with contribution arrears due to be paid in 2006.

A full independent actuarial valuation of the Scheme was carried out as at 31 March 2005. The actuarial valuation showed that the aggregate market value of the Scheme's assets at 31 March 2005 was £318m, representing some 91% of the accrued liabilities. The Group intends to make two payments of £11m in 2006 and one payment of £11m in 2007 in order to reduce the Scheme's deficit.

Higher paid employees may be subject to the 'earnings cap', which is a restriction on the amount of pay which can be used to calculate pensions from a tax approved pension scheme. BG Group plc has agreed that on becoming capped, employees may, at BG Group plc's discretion, be offered membership of the BG Supplementary Benefits Scheme, an unfunded, unapproved arrangement under which their benefits (including contingent death benefits) would be increased to at least the level that would otherwise have been provided under the BG Pension Scheme had they not been subject to an earnings cap. Provision has been made in respect of the additional obligations for those post-retirement benefits for members of the BG Supplementary Benefits Scheme.

The earnings cap in the BG Pension Scheme will be removed once the new pensions tax regime comes into effect from April 2006. The BG Supplementary Benefits Scheme will be retained and will be available to provide benefits in excess of the new 'lifetime allowance'. The new taxation regime will therefore result in a different allocation of benefits as between the BG Pension Scheme and the BG Supplementary Benefits Scheme, but there will be no change in the overall level of benefits payable. A past service cost will be reflected in the income statement for the year ending 31 December 2006, reflecting the introduction of the new regime for those employees currently below the earnings cap and who are likely to exceed it. The amount of the past service cost estimated as at 31 December 2005 was £16m.

A subsidiary undertaking operates a defined benefit pension scheme (the Ballylumford Power Pension Scheme) which is closed to new entrants. The scheme is funded to cover future pension liabilities in respect of service up to the balance sheet date. There is an unfunded post-retirement employee benefit plan for healthcare in respect of employees of Comgas. Provision has been made in respect of these post-retirement benefits.

The Group also has a number of defined contribution schemes and smaller defined benefit schemes for its local employees in overseas businesses. These are not material in Group terms.

### IFRS

The following information in respect of the Scheme, the BG Supplementary Benefits Scheme, the Ballylumford Power Pension Scheme and the Comgas post-retirement healthcare plan (described hereafter as the 'plans') has been provided in accordance with IAS 19.

A valuation of all of the plans' assets and expected liabilities as at 31 December 2005 was carried out by independent actuaries in accordance with the requirements of IAS 19. In calculating the charge to the income statement including any recognised actuarial gains and losses, a 10% corridor was applied. This means that a portion of actuarial gains and losses is recognised as income or expense only if it exceeds the greater of:

- 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
- 10% of the fair value of any plan assets at that date.

These limits are calculated and applied separately for each defined benefit plan at each balance sheet date and the portion of actuarial gains and losses to be recognised in future years for each plan is the excess of actuarial gains and losses over and above the 10% limits divided by the expected average remaining working lives of the employees participating in that plan.

The valuation as at 31 December was based on the following assumptions:

	2005		2004		2003	
	BG plans %	Comgas healthcare plan %	BG plans %	Comgas healthcare plan %	BG plans %	Comgas healthcare plan %
Rate of price inflation and benefit increases <sup>(a)</sup>	2.9	5.0	2.8	5.0	2.7	5.0
Future increases in earnings	4.9	n/a	4.8	n/a	4.7	n/a
Discount rate	4.8	11.3	5.3	11.3	5.4	11.3
Healthcare cost trend rate <sup>(b)</sup>	n/a	9.2	n/a	9.4	n/a	9.6

(a) Rate of increase of deferred pensions and pensions in payment in excess of any Guaranteed Minimum Pension element.

(b) The rate for the Comgas healthcare plan is initially at 9.2% trending to 6.8% over 45 years (2004 9.4% trending to 6.8%; 2003 9.6% trending to 6.8%).

# Notes to the accounts continued

## 29 PENSIONS AND POST-RETIREMENT BENEFITS continued

In determining the defined benefit obligation as at 31 December 2005 for the BG plans, mortality assumptions are based on the '92 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.

As at 31 December 2005, the value of the plans' assets and expected rates of return, together with the liabilities in the plans, were as follows:

	2005			2004			2003		
	Expected rate of return(a) %	Percentage of plans' assets %	Value £m	Expected rate of return(a) %	Percentage of plans' assets %	Value £m	Expected rate of return(a) %	Percentage of plans' assets %	Value £m
Equities	8.0	84	336	8.2	83	258	8.0	82	210
Index-linked gilts	4.0	5	19	4.5	5	15	4.8	6	17
Corporate bonds	4.8	10	41	5.2	11	33	5.4	10	25
Cash	3.9	1	4	3.8	1	3	3.7	2	4
Total market value of assets			400			309			256
Present value of liabilities			(647)			(479)			(406)
Deficit in plans			(247)			(170)			(150)
Unrecognised net (gain)/loss			93			35			27
Net benefit liability			(154)			(135)			(123)

(a) Long-term expected rate of return.

The expected rate of return on assets has been determined following advice from the plans' independent actuary and is based on the expected return on each asset class together with consideration of the long-term asset strategy.

The actual return on the plans' assets was £75m (2004 £36m).

The following amounts have been recognised in the consolidated income statement in the year to 31 December under the requirements of IAS 19:

	2005 £m	2004 £m	2003 £m
<b>Amounts recognised in the consolidated income statement:</b>			
Operating profit:			
Current service cost	27	24	18
Loss on curtailment	1	6	10
Past service cost	3	—	—
<b>Total charge to operating profit</b>	<b>31</b>	<b>30</b>	<b>28</b>
Net finance costs:			
Expected return on the plans' assets	(24)	(19)	(15)
Interest on the plans' liabilities	27	21	16
<b>Total charge to finance costs</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>Total included within employee costs</b>	<b>34</b>	<b>32</b>	<b>29</b>

Movements in the present value of fair value of defined benefit obligations during the period were as follows:

	2005 £m	2004 £m
<b>Reconciliation of the present value of the Defined Benefit Obligation (DBO)</b>		
Present value of DBO as at 1 January	479	406
Movement in year:		
Current service cost	27	24
Interest cost	27	21
Employee contributions	3	3
Actuarial losses	105	24
Benefit payments	(5)	(5)
Curtailments	1	6
Past service cost	3	—
Foreign exchange movements	7	—
<b>DBO as at 31 December</b>	<b>647</b>	<b>479</b>

As at 31 December 2005 £582m of the defined benefit obligation relates to wholly funded defined benefit plans (2004 £434m) and £65m relates to unfunded defined benefit plans (2004 £45m).

**29 PENSIONS AND POST-RETIREMENT BENEFITS** *continued*

Movements in the fair value of plan assets during the period were as follows:

	2005 £m	2004 £m
<b>Reconciliation of the fair value of the plans' assets</b>		
Fair value of the plans' assets as at 1 January	309	256
Movement in year:		
Expected return on the plans' assets	24	19
Actuarial gains/(losses)	51	17
Company contributions	18	19
Employee contributions	3	3
Benefit payments	(4)	(4)
Expenses paid	(1)	(1)
<b>Fair value of the plans' assets as at 31 December</b>	<b>400</b>	<b>309</b>

The history of experience adjustments is as follows:

for the year ended 31 December	2005 £m	2004 £m	2003 £m
<b>Details of experience gains/(losses) for all plans</b>			
Present value of defined benefit obligations	(647)	(479)	(406)
Fair value of the plans' assets	400	309	256
Surplus/(deficit) in the plans	(247)	(170)	(150)
Difference between the expected and actual return on the plans' assets:			
Amount (£m)	51	17	28
Percentage of the plans' assets (%)	12.8	5.5	10.9
Experience losses on the plans' liabilities:			
Amount (£m)	(105)	(24)	(55)
Percentage of the present value of the plans' liabilities (%)	16.2	5.0	13.5

Aggregate contributions for the year ended 31 December 2006 are expected to be £48m, including an increase in the employer's contribution rate to 25.2% and £22m in respect of payments made by the Group to reduce the actuarial funding deficit of the BG Pension Scheme. The next independent actuarial valuation for the BG Pension Scheme is expected to be undertaken as at 31 March 2008. Following this valuation, the rate of the employer's contributions will be reviewed and adjusted if necessary.

The projected benefit obligation for the Comgas post-retirement employee benefit plan for healthcare was £35m (2004 £24m). A one percentage point increase or decrease in the assumed healthcare cost trend rates (with all other assumptions remaining constant) on the aggregate service and interest costs for the Comgas plan would be an increase or decrease of £400 000 (2004 £300 000) and on the accumulated post-retirement benefit obligation would be an increase of £4m (2004 £3m) and a decrease of £3m (2004 £2m).

**POST-RETIREMENT BENEFITS**

The Group has no material post-retirement benefits other than those discussed above.

**30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****CASH GENERATED BY OPERATIONS**

	2005 £m	2004 £m	2003 £m
<b>Operating profit before share of results from joint ventures and associates</b>	<b>2 367</b>	<b>1 416</b>	<b>1 207</b>
Depreciation of property, plant and equipment	488	441	418
Amortisation of other intangible assets	4	2	—
Fair value movements in commodity contracts	253	—	—
Profit on disposal of non-current assets	(446)	(87)	(116)
Unsuccessful exploration expenditure written off	70	52	46
Provisions for liabilities and retirement benefit obligations	7	21	(7)
Movements in working capital:			
Increase in inventories	(76)	(25)	(9)
Increase in trade and other receivables	(371)	(383)	(169)
Increase/(decrease) in payables	182	139	80
<b>Cash generated by operations</b>	<b>2 478</b>	<b>1 576</b>	<b>1 450</b>

## Notes to the accounts continued

### 31 PRINCIPAL SUBSIDIARY UNDERTAKINGS, JOINT VENTURES AND ASSOCIATES

The principal subsidiary undertakings, joint ventures and associates listed are those which in the opinion of the Directors principally affect the figures shown in the Financial Statements. A full list of subsidiary undertakings, joint ventures and associates will be included in the next Annual Return filed with the Registrar of Companies.

#### PRINCIPAL SUBSIDIARY UNDERTAKINGS

as at 31 December 2005

	Country of incorporation	Activity	Group holding %(a)
BG Gas Marketing Limited*	England	LNG marketing	100.0
BG International Limited*	England	Holding company Exploration and production	100.0
BG International (CNS) Limited	England	Exploration and production	100.0
BG International (NSW) Limited	England	Exploration and production	100.0
BG Karachaganak Limited	England	Holding company Exploration and production	100.0
BG North Sea Holdings Limited*	England	Holding company Exploration and production	100.0
BG Rosetta Limited*	England	Exploration and production	100.0
BG Trinidad and Tobago Limited	England	Exploration and production	100.0
BG Tunisia Limited	England	Exploration and production	100.0
Methane Services Limited*	England	LNG shipping	100.0
BG E&P Brasil Ltda	Brazil	Exploration and production	100.0
Companhia de Gás de São Paulo – (Comgas) <sup>(b)</sup>	Brazil	Gas distribution	72.9
BG Canada Exploration and Production, Inc.	Canada	Exploration and production	100.0
BG Bolivia Corporation	Cayman Islands	Exploration and production	100.0
BG Egypt S.A.	Cayman Islands	Exploration and production	100.0
BG Exploration and Production India Limited	Cayman Islands	Exploration and production	100.0
Gujarat Gas Company Limited	India	Gas distribution	65.1
Mauritania Holdings B.V.	Netherlands	Exploration and production	100.0
Premier Power Limited*	Northern Ireland	Power generation	100.0
BG Asia Pacific Pte Limited	Singapore	Exploration and production	100.0
BG Trinidad Central Block Limited	Trinidad and Tobago	Exploration and production	100.0
BG LNG Services, LLC	USA	LNG shipping and marketing	100.0
BG LNG Trading, LLC	USA	LNG marketing	100.0

\* Shares are held by the Company; others are held by subsidiary undertakings.

(a) There is no difference between the Group holding of ordinary shares and the Group's share of net assets attributable to equity shareholders, except for Comgas where the Group's share of net assets is 60.1%.

(b) BG Energy Holdings holds its interest in Comgas indirectly through its wholly owned subsidiary undertaking BG Gas São Paulo Investments B.V. which holds a 95.8% interest in Integral Investments B.V. which, in turn, holds ordinary shares in Comgas.

The distribution of the profits of Comgas are restricted by Corporation Law in Brazil and the company's by-laws which require 5% of the profit for the year to be transferred to the Legal Reserve, until it reaches 20% of the subscribed capital. Distribution of the profits of BG Energy Holdings' other subsidiary undertakings are not materially restricted.

All principal subsidiary undertakings operate in their country of incorporation with the exception of BG Asia Pacific Pte Limited, which operates across several countries; BG Bolivia Corporation, which operates in Bolivia; BG Tunisia Limited, which operates in Tunisia; BG Trinidad and Tobago Limited, which operates in Trinidad and Tobago; BG Trinidad Central Block Limited, which operates in Trinidad and Tobago; BG Rosetta Limited, which operates in Egypt; BG Egypt S.A., which operates in Egypt; BG Karachaganak Limited, which operates in Kazakhstan; BG Exploration and Production India Limited, which operates in India; Mauritania Holdings B.V., which operates in Mauritania; BG Gas Marketing Limited, which operates across several countries; Methane Services Limited, which operates across several countries; and BG International Limited, which operates in the UK and several other countries worldwide.

**31 PRINCIPAL SUBSIDIARY UNDERTAKINGS, JOINT VENTURES AND ASSOCIATES** continued**JOINT VENTURES AND ASSOCIATES**

as at 31 December 2005

	Country of incorporation and operation	Activity	Issued share capital	Group holding %
<i>Joint ventures</i>				
First Gas Holdings Corporation	Philippines	Power generation	126 084 100 shares of Peso 10	40.0
Mahanagar Gas Limited	India	Gas distribution	89 341 600 shares of Rupees 10	49.75
Seabank Power Limited	England	Power generation	5 280 shares of £1 <sup>(a)</sup>	50.0
<i>Associates</i>				
Atlantic LNG Company of Trinidad and Tobago	Trinidad and Tobago	LNG manufacture	243 851 shares of \$1 000	26.0
Atlantic LNG 2/3 Company of Trinidad and Tobago Unlimited	Trinidad and Tobago	LNG manufacture	139 253 shares of \$1 000	32.5
El Behera Natural Gas Liquefaction Company S.A.E.	Egypt	LNG manufacture	30 000 shares of \$100	35.5
Genting Sanyen Power Sdn Bhd	Malaysia	Power generation	20 000 000 shares of Ringgit 1	20.0
Idku Natural Gas Liquefaction Company S.A.E.	Egypt	LNG manufacture	30 000 shares of \$100	38.0
Interconnector (UK) Limited	England	Gas transportation	11 785 680 shares of £1 <sup>(b)</sup>	25.0

(a) Comprises 2 640 A ordinary and 2 640 B ordinary shares. The Group holding is 2 640 A ordinary shares. The rights attached to each class of share are the same.

(b) Ordinary shares. Interconnector (UK) Limited also has 969 000 issued preference shares of £1 each of which the Group holds 26.3%.

# Notes to the accounts continued

## 32 EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In July 2002, the European Union (EU) approved a regulation that requires all listed companies to prepare consolidated statements in accordance with International Financial Reporting Standards (IFRS) adopted at the European level. The regulation applies to all accounting periods beginning on or after 1 January 2005. BG Energy Holdings is not listed; however its consolidated financial statements have been prepared on a voluntary basis in accordance with IFRS. This is the first year that BG Energy Holdings has presented its Financial Statements under IFRS.

### IMPACT OF IFRS ON COMPARATIVE FINANCIAL INFORMATION

As BG Energy Holdings publishes comparative information for two years in its Financial Statements, the date for transition to IFRS is 1 January 2003; the start of the earliest period of comparative information. The financial information set out on pages 55 to 58 has been prepared in order to explain the adjustments made to the transition balance sheet as at 1 January 2003 and for the years ended 31 December 2003 and 2004 for the Group. In addition, the adjustments made on the adoption of IAS 32 and IAS 39 from 1 January 2005 are set out on page 56. This information has been prepared using the accounting policies set out on pages 8 to 11.

### Transition arrangements

The rules for first time adoption of IFRS are set out in IFRS 1 'First-time Adoption of International Financial Reporting Standards'. IFRS 1 states that companies should use the same accounting policies in their opening IFRS balance sheet and for all periods presented thereafter. The standard requires these policies to comply with IFRSs effective at the reporting date for the first published financial statements under IFRS (31 December 2005).

IFRS 1 allows exemptions from the application of certain IFRSs to assist companies with the transition process. BG Energy Holdings used the following exemptions:

BG Energy Holdings used the exemption available for not restating business combinations under IFRS 3 prior to the date of transition to IFRS. Accordingly, the carrying value of goodwill was not adjusted at the transition date.

BG Energy Holdings elected to recognise all cumulative actuarial gains and losses at the date of transition to IFRS. The 'corridor' approach as set out in IAS 19 Employee Benefits is used to recognise actuarial gains and losses arising subsequent to the transition date.

BG Energy Holdings deemed cumulative translation differences for foreign operations to be zero at the date of transition. Any gains and losses on disposals of foreign operations exclude translation differences arising prior to the transition date.

BG Energy Holdings adopted IAS 32 and IAS 39 from 1 January 2005, with no restatement of comparative information. The effect of adoption of IAS 32 and IAS 39 is set out on page 54.

### IAS 19 Employee Benefits

Under UK GAAP, BG Energy Holdings accounted for pensions and post-retirement benefits using SSAP 24. SSAP 24 required that the cost of providing pensions and related benefits was charged to the income statement over the periods benefiting from employees' services. The difference between the charge in the income statement and contributions paid to pension schemes was shown as a movement in a provision.

Under IAS 19, cumulative actuarial gains and losses in respect of the Group's pension and post-retirement benefit plans were recognised in full on the transition date. This resulted in the recognition of an additional benefit obligation of £101m. The

related tax impact was an increase in the deferred tax asset of £30m. The income statement charge under IAS 19 primarily represents a current service cost (using the Projected Unit Method of valuation) charged to operating profit and a finance cost offset by the expected return on any plan assets. The charge to operating profit is also affected by any recognised actuarial gains and losses. BG Energy Holdings uses the 'corridor' approach for the recognition of actuarial gains and losses.

The adoption of IAS 19 increased the pre-tax income statement charge in respect of pensions in 2003 by £6m, £1m of which was presented as a finance cost. The pre-tax impact in 2004 was an additional charge of £11m, £2m of which was presented as a finance cost.

### IFRS 2 Share-based Payment

Under UK GAAP (UITF 17) BG Energy Holdings did not recognise any charge for share-based payments to employees based on grants of options allocated under the Company Share Option Scheme (CSOS) as the exercise price is the same as the option price at the date of grant. In addition, no income statement charge was incurred in respect of shares issued to employees under the Sharesave Scheme as Save as You Earn Schemes were exempt from the provisions of UITF 17. The costs of the Long Term Incentive Scheme (LTIS) and Free Shares Scheme were charged to the income statement over the life of the allocation, based on the likelihood of shares vesting and the market value of the shares at the date of grant.

On the adoption of IFRS 2, BG Energy Holdings recognised the fair value of share-based payments to employees based on grants of options (allocated under the CSOS and Sharesave Scheme) and shares (allocated under the LTIS and Free Shares Scheme) from 7 November 2002 (the effective date of IFRS 2). The fair value of these grants is calculated using the Black-Scholes valuation model and a Monte Carlo projection model and is re-charged to BG Energy Holdings by the parent company, BG Group plc, over the relevant vesting periods. The charge for share options and free shares is adjusted to reflect expected and actual levels of vesting. The fair value of the LTIS awards is adjusted for the probability of performance conditions being achieved.

In 2003, the fair value charge in respect of share-based payments granted since 7 November 2002 was more than offset by the reversal of the charge made in respect of the LTIS and Free Shares Schemes under UK GAAP. This resulted in an increase to operating profit for the year ended 31 December 2003 of £5m. In 2004, the additional charge in respect of IFRS 2 was £7m. In future years it is estimated that, based on 2004 award levels and share price, there will be an increased pre-tax charge to the income statement of approximately £12m compared to the charge under UK GAAP.

### Premier Power CCGT Project

In 2000, BG Energy Holdings' wholly owned subsidiary Premier Power Limited received £168m in consideration for the restructuring of power purchase agreements with Northern Ireland Electricity following agreement to construct a new CCGT power plant at Ballylumford. Under UK GAAP, this amount was treated as deferred income and released over the life of the remaining power agreements.

Under IFRS, the amount was recognised as income in the year of receipt, along with the impairment of the property, plant and equipment associated with the original power plants. This resulted in a reduction in the carrying value of property, plant and equipment of £75m and a reduction in accruals and deferred income of £107m as at 1 January 2003, with a related deferred tax impact of £10m (increase in liability). For 2003 and 2004, turnover and operating costs were reduced by £16m and £11m and £14m and £10m respectively.

## 32 EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued

### IAS 12 Income taxes

Under UK GAAP, deferred tax was provided for all timing differences that had originated but not reversed at the balance sheet date. Deferred tax was provided for unremitted earnings of overseas subsidiaries, jointly controlled entities and associates only in the event of a binding agreement to distribute those earnings.

IAS 12 requires that a deferred tax liability should be recognised for all taxable temporary differences except under certain specific circumstances. Accordingly, at the transition date BG Energy Holdings recognised deferred tax liabilities in respect of unremitted earnings of overseas associates and jointly controlled entities of £16m and in respect of non-current assets held at fair value following a business combination of £34m.

In addition, on the transition date additional deferred tax of £4m was recognised in an associate in respect of taxable temporary differences. The tax charge in 2003 increased by £23m and in 2004 by £9m in respect of deferred tax provisions on unremitted earnings of associates and jointly controlled entities and fair value adjustments.

### IFRS 3 Business Combinations

Under UK GAAP, BG Energy Holdings amortised goodwill associated with business combinations over its useful economic life, which did not exceed 20 years.

Under IFRS 3, all business combinations are accounted for by applying the purchase method. Any goodwill acquired in a business combination is recognised as an asset and is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

BG Energy Holdings elected to adopt the IFRS 1 exemption to the application of this standard to business combinations occurring prior to the IFRS transition date. Accordingly, the carrying value of goodwill as at 1 January 2003 was not adjusted. Charges in respect of goodwill amortisation for 2003 and 2004 were reversed. The impact on operating profit in 2003 was an increase of £17m and in 2004 was £16m. There is no associated tax impact.

An impairment review was undertaken on the goodwill balance at the transition date as required by IFRS 1. An impairment review was also performed on the goodwill for 2003 and 2004 reporting purposes.

During 2004, BG Energy Holdings completed the acquisitions of: *El Paso Oil and Gas Canada, Inc. (Canada) an exploration and production business with interests in Canada; Aventura Energy, Inc. (Aventura) an exploration and production business with interests in Trinidad and Tobago; and Mauritania Holdings B.V. (Mauritania) an exploration and production business with interests offshore Mauritania, West Africa.*

Under UK GAAP, deferred tax was not provided on fair value adjustments arising from business combinations. The IFRS balance sheet as at 31 December 2004 was adjusted to take account of a deferred tax adjustment to the fair value of assets and liabilities in respect of BG Energy Holdings' acquisitions of Mauritania and Aventura. The adjustment represents a deferred tax liability of £107m associated with the fair value of the exploration and production assets acquired. The carrying value of the assets acquired was adjusted by the same amount. Canada has a deferred tax asset under both UK GAAP and IFRS.

### Regulatory current account balances

Comgas (BG Energy Holdings' Brazilian distribution business) recognised an asset under UK GAAP in respect of the pass-through of higher costs after formal approval of a revised tariff by the Comgas Regulator.

Under IFRS, the retrospective benefit is not considered to meet the criteria for recognition of an asset under the current standards and accordingly this balance was de-recognised in the transition balance sheet. The impact of this de-recognition was a reduction of net assets as at 1 January 2003 of £19m, an increase in operating profit during 2003 of £20m and a decrease in operating profit during 2004 of £1m.

### Deferred income

Under UK GAAP, BG Energy Holdings adjusted deferred income associated with the restructuring of one of its gas contracts for the effects of the discount unwinding on the lump sum payment received. This resulted in an equal and opposite adjustment to both turnover and finance costs. Under IFRS, this adjustment was reversed resulting in a reduction of both turnover and finance costs of £7m for the year ended 31 December 2003 and £5m for the year ended 31 December 2004. There was no impact on profit before tax.

### IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Under UK GAAP, BG Energy Holdings was not required to identify separately on the face of the balance sheet non-current assets or disposal groups held for sale.

BG Energy Holdings adopted IFRS 5 earlier than required by the standard. IFRS 5 states that a non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The results of discontinued operations are separately disclosed if they represent a separate major line of business or geographical operation.

During 2003, BG Energy Holdings announced its agreement to sell its interest in the North Caspian Sea PSA and its agreement to the sale of its interest in the Muturi PSC in Indonesia and the related interest in the Tangguh LNG project. In addition, management had committed to a plan to dispose of Premier Transmission Limited, a jointly controlled entity based in the UK. At the end of 2003, these disposal groups were measured at their carrying amounts, which were lower than fair value less costs to sell. The assets and liabilities associated with these disposal groups have been presented separately from other assets and liabilities in the balance sheet. The results of these operations were not separately identified as discontinued operations as they did not represent a major line of business or geographical operation.

The sale of Muturi and Tangguh was completed during 2004. The disposals of the North Caspian Sea PSA and Premier Transmission Limited completed during 2005.

## Notes to the accounts continued

### 32 EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued

#### **Impact of IFRS on cash flow**

Income taxes of £387m paid during the year ended 31 December 2004 (2003 £332m) are classified as part of operating cash flows under IFRS, but were classified as a separate category of the cash flow under UK GAAP. Cash and cash equivalents under IFRS includes short-term deposits of £208m (2003 £200m). Under UK GAAP movements on these short-term deposits were included in the management of liquid resources category in the cash flow.

#### **Impact of IAS 32 and IAS 39**

BG Energy Holdings adopted IAS 32 and IAS 39 from 1 January 2005. These standards set out the accounting rules surrounding the recognition, measurement, disclosure and presentation of financial instruments.

Most of BG Energy Holdings' contracts for the sale and purchase of commodities are considered 'own use' contracts that were entered into and continue to be held for the purpose of receipt or delivery in accordance with BG Energy Holdings' expected sale, purchase or usage requirements. However, under IAS 39 BG Energy Holdings is also required to assess own use contracts to determine whether they contain embedded derivatives. This assessment was made based upon conditions at the inception of the contracts.

Net assets as at 1 January 2005 were reduced by £238m on implementation of IAS 39. The large majority of this reduction (£225m) related to the recognition of certain long-term UK gas contracts at fair value (see below). The loss on these contracts arises as they are required to be marked-to-market and current UK market gas prices are considerably higher than prices under contract terms agreed in prior years. The underlying contracts are profitable on an operational basis and there is no impact on cash flow from the change in accounting rules.

The most significant impacts of adopting these standards are set out below:

Certain long-term contracts for the sale of gas to the UK gas market fall within the scope of IAS 39. Whilst the activity surrounding these contracts involves the physical delivery of gas, the contracts fall within the scope of IAS 39 as they are considered to contain written options relating to buyer flexibility e.g. with respect to volumes purchased. Accordingly, they are marked-to-market in their entirety with movements in this mark-to-market valuation flowing through the income statement.

Asset optimisation activities undertaken by BG Energy Holdings' UK and US operations involve short-term contracts for the sale and purchase of commodities and associated derivative instruments. These instruments fall within the scope of IAS 39 and are measured at fair value with movements in fair value recognised in the income statement.

BG Energy Holdings' gas marketing business in the USA uses derivative instruments to manage margin exposure arising from fluctuations in gas prices. Cash flow hedge accounting is applied where derivative instruments are designated as a hedge of highly probable future gas sales. Gains and losses associated with those derivatives determined to be effective hedges are deferred in equity until the underlying transaction affects the income statement.

Financial instruments utilised by BG Energy Holdings' treasury operations include interest rate swaps, foreign currency swaps and forward exchange contracts. These financial instruments are used to manage the Group's exposure to foreign exchange and interest rate movements. Certain derivative instruments are designated as fair value hedges of interest rate risk associated with the long-term debt. The Group designates certain derivatives as cash flow hedges of the foreign exchange risk associated with highly probable forecast purchases. The Group also hedges the foreign exchange risks associated with the Group's net investments in foreign operations. The fair value of these derivative instruments is recognised on the balance sheet. Movements in fair value are recognised in the income statement to the extent that they relate to hedges of the risks associated with Group debt, or in equity when relating to effective cash flow hedges of highly probable forecast purchases that have yet to occur or effective hedges of the foreign exchange risk of net investments in foreign operations.

Long-term issued debt of the Group is recorded at amortised cost except where the debt is part of a fair value hedge relationship when the carrying value of the debt is adjusted to reflect fair value movements associated with the hedged risks throughout the effective period of the hedge. These fair value movements are recognised in income and offset against movements in the related hedging instrument.



## 32 EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued

## RECONCILIATION OF INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	UK GAAP £m	Effect of transition to IFRS £m	Restated under IFRS £m
<b>Group revenue and other operating income</b>	4 082	(19)	4 063
Operating costs	(2 741)	7	(2 734)
Profit/(loss) on disposal of non-current assets	92	(5)	87
<b>Operating profit before share of results from joint ventures and associates</b>	1 433	(17)	1 416
Finance income	42	—	42
Finance costs	(78)	3	(75)
Share of post-tax results from joint ventures and associates	123	2	125
<b>Profit before tax</b>	1 520	(12)	1 508
Taxation	(578)	(7)	(585)
<b>Profit for the year</b>	942	(19)	923
Profit attributable to:			
Minority interests	28	—	28
<b>Shareholder (earnings)</b>	914	(19)	895
	942	(19)	923

## RECONCILIATION OF INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	UK GAAP £m	Effect of transition to IFRS £m	Restated under IFRS £m
<b>Group revenue and other operating income</b>	3 587	(23)	3 564
Operating costs	(2 525)	52	(2 473)
Profit/(loss) on disposal of subsidiaries and associates	40	—	40
Profit/(loss) on disposal of other non-current assets	77	(1)	76
<b>Operating profit before share of results from joint ventures and associates</b>	1 179	28	1 207
Finance income	44	—	44
Finance costs	(81)	7	(74)
Share of post-tax results from joint ventures and associates	130	2	132
<b>Profit before tax</b>	1 272	37	1 309
Taxation	(481)	(21)	(502)
<b>Profit for the year</b>	791	16	807
Profit attributable to:			
Minority interests	20	8	28
<b>Shareholder (earnings)</b>	771	8	779
	791	16	807

# Notes to the accounts continued

## 32 EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued

### RECONCILIATION OF EQUITY AT 31 DECEMBER 2004

	UK GAAP £m	Effect of transition to IFRS £m	Restated under IFRS £m	Effect of adoption of IAS 32 and IAS 39 £m	Opening position at 1 Jan 2005 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	239	33	272	—	272
Other intangible assets	976	(391)	585	—	585
Property, plant and equipment	4 567	(58)	4 509	—	4 509
Investments accounted for using equity method	1 062	(13)	1 049	(2)	1 047
Other investments	1	—	1	—	1
Deferred income tax assets	32	36	68	2	70
Trade and other receivables	46	—	46	—	46
Derivative financial instruments	—	—	—	177	177
	<b>6 923</b>	<b>(393)</b>	<b>6 530</b>	<b>177</b>	<b>6 707</b>
<b>Current assets</b>					
Inventories	99	—	99	—	99
Trade and other receivables	1 181	(22)	1 159	(11)	1 148
Commodity contracts and other derivative financial instruments	—	—	—	43	43
Cash and cash equivalents	340	—	340	—	340
	<b>1 620</b>	<b>(22)</b>	<b>1 598</b>	<b>32</b>	<b>1 630</b>
Assets classified as held for sale	—	530	530	—	530
<b>Total assets</b>	<b>8 543</b>	<b>115</b>	<b>8 658</b>	<b>209</b>	<b>8 867</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Borrowings	(577)	—	(577)	(28)	(605)
Trade and other payables	(1 289)	80	(1 209)	3	(1 206)
Current income tax liabilities	(264)	—	(264)	—	(264)
Commodity contracts and other derivative financial instruments	—	—	—	(399)	(399)
	<b>(2 130)</b>	<b>80</b>	<b>(2 050)</b>	<b>(424)</b>	<b>(2 474)</b>
<b>Non-current liabilities</b>					
Borrowings	(762)	—	(762)	(152)	(914)
Trade and other payables	(156)	67	(89)	—	(89)
Derivative financial instruments	—	—	—	(22)	(22)
Deferred income tax liabilities	(712)	(195)	(907)	151	(756)
Retirement benefit obligations	(16)	(119)	(135)	—	(135)
Provisions for other liabilities and charges	(325)	—	(325)	—	(325)
	<b>(1 971)</b>	<b>(247)</b>	<b>(2 218)</b>	<b>(23)</b>	<b>(2 241)</b>
Liabilities associated with assets classified as held for sale	—	(67)	(67)	—	(67)
<b>Total liabilities</b>	<b>(4 101)</b>	<b>(234)</b>	<b>(4 335)</b>	<b>(447)</b>	<b>(4 782)</b>
<b>Net assets</b>	<b>4 442</b>	<b>(119)</b>	<b>4 323</b>	<b>(238)</b>	<b>4 085</b>
<b>Equity</b>					
Ordinary shares	2 898	—	2 898	—	2 898
Share premium	316	—	316	—	316
Hedging and translation reserves	—	(173)	(173)	(32)	(205)
Retained earnings	1 208	54	1 262	(204)	1 058
<b>Total shareholder's equity</b>	<b>4 422</b>	<b>(119)</b>	<b>4 303</b>	<b>(236)</b>	<b>4 067</b>
Minority interest in equity	20	—	20	(2)	18
<b>Total equity</b>	<b>4 442</b>	<b>(119)</b>	<b>4 323</b>	<b>(238)</b>	<b>4 085</b>

## 32 EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *continued*

### RECONCILIATION OF EQUITY AT 31 DECEMBER 2003

	UK GAAP £m	Effect of transition to IFRS £m	Restated under IFRS £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	252	17	269
Other intangible assets	588	(387)	201
Property, plant and equipment	4 020	(88)	3 932
Investments accounted for using equity method	1 028	(14)	1 014
Other investments	10	—	10
Deferred income tax assets	5	32	37
Trade and other receivables	290	—	290
	<b>6 193</b>	<b>(440)</b>	<b>5 753</b>
<b>Current assets</b>			
Inventories	119	—	119
Trade and other receivables	732	(30)	702
Cash and cash equivalents	312	—	312
	<b>1 163</b>	<b>(30)</b>	<b>1 133</b>
Assets classified as held for sale	—	449	449
<b>Total assets</b>	<b>7 356</b>	<b>(21)</b>	<b>7 335</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	(495)	—	(495)
Trade and other payables	(810)	76	(734)
Current income tax liabilities	(126)	—	(126)
	<b>(1 431)</b>	<b>76</b>	<b>(1 355)</b>
<b>Non-current liabilities</b>			
Borrowings	(539)	—	(539)
Trade and other payables	(154)	80	(74)
Deferred income tax liabilities	(715)	(79)	(794)
Retirement benefit obligations	(16)	(107)	(123)
Provisions for other liabilities and charges	(287)	—	(287)
	<b>(1 711)</b>	<b>(106)</b>	<b>(1 817)</b>
Liabilities associated with assets classified as held for sale	—	(56)	(56)
<b>Total liabilities</b>	<b>(3 142)</b>	<b>(86)</b>	<b>(3 228)</b>
<b>Net assets</b>	<b>4 214</b>	<b>(107)</b>	<b>4 107</b>
<b>Equity</b>			
Ordinary shares	2 898	—	2 898
Share premium	316	—	316
Translation reserve	—	(34)	(34)
Retained earnings	1 009	(73)	936
Total shareholder's equity	4 223	(107)	4 116
Minority interest in equity	(9)	—	(9)
<b>Total equity</b>	<b>4 214</b>	<b>(107)</b>	<b>4 107</b>

# Notes to the accounts continued

## 32 EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued

### RECONCILIATION OF EQUITY AT 1 JANUARY 2003

	UK GAAP £m	Effect of transition to IFRS £m	Restated under IFRS £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	251	–	251
Other intangible assets	561	–	561
Property, plant and equipment	4 102	(75)	4 027
Investments accounted for using equity method	733	(6)	727
Other investments	9	–	9
Deferred tax assets	8	30	38
Trade and other receivables	386	–	386
	<b>6 050</b>	<b>(51)</b>	<b>5 999</b>
<b>Current assets</b>			
Inventories	105	–	105
Trade and other receivables	651	(19)	632
Cash and cash equivalents	261	–	261
	<b>1 017</b>	<b>(19)</b>	<b>998</b>
<b>Total assets</b>	<b>7 067</b>	<b>(70)</b>	<b>6 997</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	(580)	–	(580)
Trade and other payables	(857)	14	(843)
Current income tax liabilities	(115)	–	(115)
	<b>(1 552)</b>	<b>14</b>	<b>(1 538)</b>
<b>Non-current liabilities</b>			
Borrowings	(690)	–	(690)
Trade and other payables	(190)	93	(97)
Deferred income tax liabilities	(645)	(60)	(705)
Retirement benefit obligations	(16)	(101)	(117)
Provisions for other liabilities and charges	(261)	–	(261)
	<b>(1 802)</b>	<b>(68)</b>	<b>(1 870)</b>
<b>Total liabilities</b>	<b>(3 354)</b>	<b>(54)</b>	<b>(3 408)</b>
<b>Net assets</b>	<b>3 713</b>	<b>(124)</b>	<b>3 589</b>
<b>Equity</b>			
Ordinary shares	2 898	–	2 898
Share premium	316	–	316
Retained earnings	475	(116)	359
Total shareholder's equity	3 689	(116)	3 573
Minority interest in equity	24	(8)	16
<b>Total equity</b>	<b>3 713</b>	<b>(124)</b>	<b>3 589</b>

# Parent Company Financial Statements of BG Energy Holdings Limited

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# Independent auditors' report to the members of BG Energy Holdings Limited

We have audited the parent Company Financial Statements of BG Energy Holdings Limited for the year ended 31 December 2005 which comprise the balance sheet and the related notes. These parent Company Financial Statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group Financial Statements of BG Energy Holdings Limited for the year ended 31 December 2005.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Directors' responsibilities for preparing the Annual Report and the parent Company 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 parent Company 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 parent Company 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 parent Company 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 other transactions is not disclosed.

We read Directors' Report contained in the Annual Report and consider whether it is consistent with the audited parent Company Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company Financial Statements. Our responsibilities do not extend to any other information.

## **BASIS OF AUDIT OPINION**

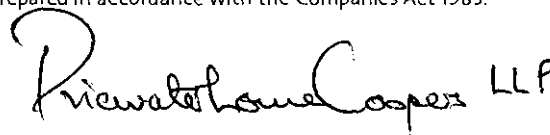
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the parent Company Financial Statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent Company 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 parent Company 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 parent Company Financial Statements.

## **OPINION**

In our opinion:

- the parent Company 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 2005 and of its profit for the year then ended; and
- the parent Company Financial Statements have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
1 Embankment Place  
London WC2N 6RH  
28 June 2006

The maintenance and integrity of the BG Group's website is the responsibility of BG Group's directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the parent Company Financial Statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Principal accounting policies under UK GAAP

## BASIS OF PREPARATION AND ACCOUNTING PRINCIPLES

The preparation of Financial Statements in conformity with generally accepted accounting principles requires management to make judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the Financial Statements and the reported revenues during the reporting period. Actual results could differ from these estimates.

These accounts have been prepared 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.

## 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 under UK GAAP.

As permitted by section 230(3) of the Companies Act 1985, no profit and loss account is presented for the Company.

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 as a result is exempt from the segmental reporting requirements of the Companies Act.

## 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.

Contributions received towards the cost of tangible fixed assets (including government grants) are included in creditors as deferred income and credited to the profit and loss account over the life of the assets.

## DEPRECIATION

Freehold land is not depreciated. Other 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:

Motor vehicles and office equipment	up to 10 years
-------------------------------------	----------------

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

## FIXED ASSET INVESTMENTS

Fixed asset investments are stated at cost less provision for impairment.

## 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.

## FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into pounds Sterling at closing rates of exchange.

Exchange differences on monetary assets and liabilities are taken to the profit and loss account. All other exchange movements are dealt with through the profit and loss account.

## PENSIONS

The employees of BG Energy Holdings Limited participate in the BG Group Pension Scheme, which is a defined benefit multi-employer scheme and BG Energy Holdings Limited is unable to identify its share of the underlying assets and liabilities of the scheme in a consistent and reasonable basis. Accordingly, it is treated as a defined contribution scheme in the Company's financial statements.

## FINANCIAL INSTRUMENTS

The Company and Group's Treasury Policy may be found on page 12.

Derivative financial instruments utilised by the Company are interest rate swaps, currency swaps, forward rate agreements, and forward exchange contracts.

A derivative financial instrument is considered to be used for hedging purposes when it alters the risk profile of an existing underlying exposure of the Company in line with the Group's risk management policies. Derivatives used for hedging purposes are accounted for on an accruals basis. During the year, there were no interest rate or exchange rate derivatives used for trading purposes.

Termination payments made or received in respect of derivatives are spread over the shorter of the life of the original instrument or the life of the underlying exposure in the cases where the underlying exposure continues to exist. Where the underlying exposure ceases to exist, any termination payments are taken to the profit and loss account.

Interest differentials on derivative instruments are recognised by adjusting the net interest charge. Premiums or discounts on derivative instruments are amortised over the shorter of the life of the instrument or the underlying exposure.

Currency swap agreements and forward exchange contracts are retranslated at the rates ruling in the agreements and contracts. Resulting gains and losses are offset against the foreign exchange gains or losses on the related borrowings, or, where the instrument is used to hedge a committed future transaction, are deferred until the transaction occurs.

# Balance sheets

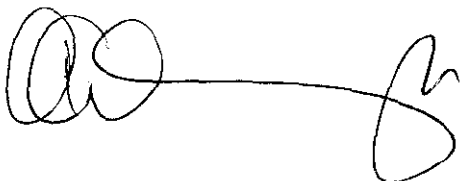
as at 31 December

	Notes	2005 £m	2004 £m
<b>Fixed assets</b>			
Tangible assets	2	1	1
Investments in subsidiary undertakings	3	9 044	8 843
Investments in joint ventures	3	165	159
Investments in associated undertakings	3	7	7
Other investments	3	1	1
		9 218	9 011
<b>Current assets</b>			
Debtors: amounts falling due within one year	4	2 718	1 922
Debtors: amounts falling due after more than one year	4	6 326	5 600
		9 044	7 522
Investments	5	1 421	131
Cash at bank and in hand		2	2
		10 467	7 655
<b>Creditors: amounts falling due within one year</b>			
Borrowings	6	(20)	—
Other creditors	7	(15 559)	(12 449)
		(15 579)	(12 449)
<b>Net current liabilities</b>		(5 112)	(4 794)
<b>Total assets less current liabilities</b>		4 106	4 217
<b>Creditors: amounts falling due after more than one year</b>			
Other creditors	7	(776)	(728)
		(776)	(728)
<b>Provisions for liabilities and charges</b>	9	—	(2)
		3 330	3 487
<b>Capital and reserves</b>			
Called up equity share capital	10, 11	2 898	2 898
Share premium account	11	316	316
Profit and loss account	11	116	273
BG Energy Holdings shareholder's funds	11	3 330	3 487

Commitments and contingencies are shown in note 12, page 66.

The accounts on pages 62 to 68 were approved by the Board and signed on its behalf on 28 June 2006 by:

Ashley Almanza, Director





# Notes to the accounts

## 1 OPERATING COSTS

Audit fees for the audit of the Company's accounts for the year ended 31 December 2005 were £30,000 (2004 £30,000).

## 2 TANGIBLE FIXED ASSETS

		Motor vehicles and office equipment	
		2005 £m	2004 £m
Cost:	as at 1 January and 31 December	1	1
Depreciation:	as at 1 January and 31 December	—	—
Net cost as at 31 December		1	1

## 3 FIXED ASSET INVESTMENTS

Fixed asset investments represent long-term investments.

	Joint ventures		Associated undertakings		Other investments £m	Subsidiary undertakings shares £m	Total £m
	Shares £m	Loans £m	Shares £m	Loans £m			
Carrying value as at 31 December 2003	24	129	7	—	2	8 634	8 796
Investments	17	—	—	—	—	209	226
Disposals and other adjustments	—	(11)	—	—	(1)	—	(12)
Carrying value as at 31 December 2004	41	118	7	—	1	8 843	9 010
Investments	18	—	—	—	—	201	219
Disposals and other adjustments	(1)	(11)	—	—	—	—	(12)
Carrying value as at 31 December 2005	58	107	7	—	1	9 044	9 217

## 4 DEBTORS

	2005 £m	2004 £m
<i>Amounts falling due within one year</i>		
Amounts owed by group undertakings	2 696	1 889
Other debtors	22	33
	2 718	1 922
<i>Amounts falling due after more than one year</i>		
Amounts owed by group undertakings	6 245	5 454
Other debtors	79	146
Deferred corporation tax	2	—
	6 326	5 600
Total debtors	9 044	7 522

## Notes to the accounts continued

### 5 CURRENT ASSET INVESTMENTS

	2005 £m	2004 £m
Money market investments	1 421	131

### 6 BORROWINGS

The Company's treasury policy and other borrowings information disclosed on page 12 and 13 of the BG Energy Holdings accounts form part of this note.

#### GROSS BORROWINGS

	2005 £m	2004 £m
<i>Amounts falling due within one year</i>		
Bank loans and overdrafts	20	—
	20	—

The following tables analyse the currency and interest rate composition of the Company's gross borrowings:

#### CURRENCY COMPOSITION OF THE COMPANY'S BORROWINGS

	2005 £m	2004 £m
Sterling	—	—
US Dollars	20	—
	20	—

#### INTEREST RATE COMPOSITION OF THE COMPANY'S BORROWINGS

For the purpose of the table below, debt with a maturity within one year, such as commercial paper is treated as floating rate debt.

	2005 £m	2004 £m
<i>Basis:</i>		
Floating rate	20	—
	20	—

The Company has undrawn committed borrowing facilities in respect of which all conditions have been met, as follows:

	2005 £m	2004 £m
<i>Expiring:</i>		
Within one year	322	288
Between three and four years	322	288
	644	576

**7 OTHER CREDITORS**

	2005 £m	2004 £m
<i>Amounts falling due within one year</i>		
Amounts owed to parent undertaking	999	243
Amounts owed to group undertakings	14 432	12 131
Taxation and social security	64	51
Accruals and deferred income	64	24
	15 559	12 449
<i>Amounts falling due after more than one year</i>		
Amounts owed to group undertakings	776	728
	776	728
Total other creditors	16 335	13 177

**8 FINANCIAL INSTRUMENTS**

The fair and book values of derivative financial instruments at the balance sheet date were:

	2005 Book Value £m	2005 Fair Value £m
Interest rate related derivatives	—	10
Currency rate related instruments	166	160
Total	166	170

Further information on financial instruments is contained on page 39 in the group accounts.

**9 PROVISIONS FOR LIABILITIES AND CHARGES**

	Deferred corporation tax	
	2005 £m	2004 £m
As at 1 January	2	—
Profit and loss charge/(credit)	1	2
Other movements	(3)	—
As at 31 December	—	2

**10 SHARE CAPITAL**

	2005 Number of shares m	2004 Number of shares m	2005 £m	2004 £m
<b>Authorised</b>				
<b>Equity:</b>				
Ordinary shares of £1 each	5 000	5 000	5 000	5 000
	2005 Number of shares m	2004 Number of shares m	2005 £m	2004 £m
<b>Allotted and fully paid up</b>				
<b>Equity:</b>				
Ordinary shares of £1 each	2 898	2 898	2 898	2 898

## Notes to the accounts continued

### 11 CAPITAL AND RESERVES

	Called up share capital £m	Share premium account £m	Profit and loss account reserve £m	Total £m
As at 1 January 2005	2 898	316	273	3 487
Transfer from profit and loss account	—	—	(157)	(157)
As at 31 December 2005	2 898	316	116	3 330

The profit for the financial year, dealt with in the accounts of the Company was £743m (2004 £552m). As permitted by section 230(3) of the Companies Act 1985, no profit and loss account is presented for the Company.

### 12 COMMITMENTS AND CONTINGENCIES

#### A) CAPITAL EXPENDITURE

As at 31 December 2005, the Company had placed contracts for capital expenditure amounting to £nil (2004 £nil).

#### B) LEASE COMMITMENTS

As at 31 December 2005 the Company had no commitments under operating leases (2004 £nil).

#### C) GUARANTEES

The Company has guaranteed the repayment of principal, any associated premium and interest on loans due by its subsidiary undertakings. As at 31 December 2005, the Sterling equivalent amounted to £969m (2004 £821m).

#### D) LEGAL PROCEEDINGS

Various Company undertakings are parties to legal actions and claims which arise in the ordinary course of business. While the outcome of some of these matters cannot readily be foreseen, it is considered that they will be resolved without material effect on the net asset position as shown in these Financial Statements.

#### E) OTHER

The amount of other contingencies and commitments as at 31 December 2005 (mainly the provision of indemnities to third parties in respect of the Company and its subsidiary undertakings, in the normal course of business) amounted to £1 320m (2004 £1 479m). Within the total, £294m related to guarantees and indemnities given in respect of a number of exploration and production developments and £378m related to a number of downstream investments, most of which expire after five years.

In addition, £421m (2004 £421m) related to an indemnity in respect of warranties given on the sale of a business which expire in 2008. This amount represents the maximum sum payable. The balance related to various guarantees and contingencies arising in the ordinary course of business.

### 13 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemptions available to wholly-owned UK subsidiaries under FRS 8 'Related Party Disclosures' from disclosure of transactions with other group companies.

As at 31 December 2005, BG Energy Holdings owed £999m (2004 owed £243m), to its parent company BG Group plc.

### 14 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The Company's immediate and ultimate parent company and controlling party is BG Group plc, which is registered in England & Wales. BG Group plc is the only company to consolidate the accounts of the Company. Copies of the consolidated accounts of BG Group plc may be obtained from the Company Secretary, BG Group plc, 100 Thames Valley Park Drive, Reading, Berkshire RG6 1PT.

## 15 PENSIONS AND POST-RETIREMENT BENEFITS

The majority of BG Energy Holdings' UK employees participate in the BG Pension Scheme (the Scheme). The Scheme is of the defined benefit type. It is 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 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.

Employees contribute to the Scheme at a rate of 3% of pensionable pay. Participating employers' contributions, including Scheme expenses, are certified by the Scheme actuary. For the year ended 31 December 2005, the employer's contribution rate was 19.9% of pensionable pay. Following the formal actuarial valuation at 31 March 2005 this will be increased to 25.2% of pensionable pay with effect from 1 April 2005 with contribution arrears due to be paid in 2006.

Higher paid employees may be subject to the 'earnings cap' which is a restriction on the amount of pay which can be used to calculate pensions from a tax approved pension scheme. BG Group plc has agreed that on becoming capped, employees may, at BG Group plc's discretion, be offered membership of the BG Supplementary Benefits Scheme, an unfunded, unapproved arrangement under which their benefits (including contingent death benefits) would be increased to at least the level that would otherwise have been provided under the BG Pension Scheme had they not been subject to an earnings cap. Provision has been made in respect of the additional obligations for those *post-retirement benefits for members of the BG Supplementary Benefit Scheme*

BG Energy Holdings Limited 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. Accordingly it accounts for contributions to the schemes as if they were defined contribution schemes under FRS 17, whilst providing the following additional disclosure on the schemes in respect of the Group 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. A valuation of the schemes' assets and expected liabilities as at 31 December 2005, was carried out by independent actuaries in accordance with the requirements of FRS 17 based on the following assumptions:

	2005 %	2004 %	2003 %
Rate of price inflation and benefit increases <sup>(a)</sup>	2.9	2.8	2.7
Future increases in earnings	4.9	4.8	4.7
Discount rate	4.8	5.3	5.4

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

# Notes to the accounts continued

## 15 PENSIONS AND POST-RETIREMENT BENEFITS continued

As at 31 December 2005, the value of the scheme's assets and expected rates of return, together with the liabilities in the schemes, were as follows:

	2005			2004			2003		
	Expected rate of return(a) %	Percentage of schemes' assets %	Value £m	Expected rate of return(a) %	Percentage of schemes' assets %	Value £m	Expected rate of return(a) %	Percentage of schemes' assets %	Value £m
Equities	8.0	84	336	8.2	84	258	8.0	84	210
Index-linked gilts	4.0	5	18	4.5	5	14	4.8	4	11
Corporate bonds	4.8	10	41	5.2	10	32	5.4	10	25
Cash	3.9	1	4	3.8	1	3	3.7	2	4
Total market value of assets			399			307			250
Present value of liabilities			(590)			(439)			(368)
Deficit in schemes			(191)			(132)			(118)
Deferred tax asset at 30%			57			40			35
Net benefit liability under FRS 17			(134)			(92)			(83)

(a) Long-term expected rate of return.

	2005 £m	2004 £m
<b>Movement in surplus/(deficit) during the year</b>		
Deficit in schemes as at 1 January	(132)	(118)
<b>Movement in year:</b>		
Current service cost	(26)	(22)
Past service cost	(3)	—
Contributions	18	19
Curtailment costs	(1)	(5)
Other finance charges	1	(1)
Actuarial loss	(48)	(5)
Deficit in schemes as at 31 December	(191)	(132)

	2005 £m	2004 £m	2003 £m
<b>Details of experience gains and (losses) for the year to 31 December 2005</b>			
Difference between the expected and actual return on the schemes' assets:			
Amount (£m)	50	16	22
Percentage of the schemes' assets (%)	12.5	5.2	8.8
Experience gains / (losses) on the schemes' liabilities:			
Amount (£m)	3	(1)	4
Percentage of the present value of the schemes' liabilities (%)	0.5	0.1	1.1
Total amount recognised in the consolidated statement of total recognised gains and losses:			
Amount (£m)	48	(5)	(21)
Percentage of the present value of the schemes' liabilities (%)	8.1	1.0	5.7

# Shareholder information

## **HEADQUARTERS AND REGISTERED OFFICE ADDRESS**

100 Thames Valley Park Drive  
Reading, Berkshire RG6 1PT  
0118 935 3222

## **CORPORATE HISTORY**

The Company was established in 1999 as a wholly-owned subsidiary undertaking of BG plc. With effect from 13 December 1999, BG was restructured so that BG Group plc became the new parent company of BG Energy Holdings.

The Company is a wholly-owned subsidiary undertaking of BG Group plc. BG Group plc is a public limited company listed on The London Stock Exchange and New York Stock Exchange and registered in England & Wales.

The Company's share capital consists of ordinary shares with a nominal value of 100p each.

BG Energy Holdings Limited  
100 Thames Valley Park Drive  
Reading, Berkshire RG6 1PT  
[www.bg-group.com](http://www.bg-group.com)

Registered in England & Wales No. 3763515

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