Company Number

3763515

BG Energy Holdings Limited
Annual Report and Accounts 2007

Contents

Parent Company Financial Statements of BG Energy Holdings Limited

Board of Directors

Frank Chapman (54)
Chairman
Frank Chapman was appointed Chief Executive of BG Group plc in 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 33 years Prior to joining the Company, he spent a total of 22 years with Shell and BP

Ashley Almanza (45)
Ashley Almanza was appointed Chief Financial Officer of BG Group plc in August 2002 He is responsible for BG Group finance, tax, treasury, investor relations, mergers and acquisitions, internal audit and secretariat He joined British Gas plc in 1993 and has held a number of key management roles including Group Finance Director and Group Financial Controller A chartered accountant, he has worked previously in South Africa and the UK He is currently chairman of The 100 Group, which represents finance directors of the UK's largest companies

Charles Bland (58)
Charles Bland joined BG plc in 1999 and was appointed to his current position of Executive Vice President, Policy and Corporate Affairs of BG Group plc in 2002 He is responsible for government and public affairs, brand and communications, Corporate Responsibility policy and social performance His previous roles at BG Group have included President, BG Kazakhstan, and Vice President, Government Affairs Before joining BG Group, he worked in UK government, holding various posts in the Ministry of Defence

Jørn Berget (55)
Jørn Berget joined BG Group plc in November 2004 He is responsible for BG Advance, which includes BG Group strategy, exploration, developments, projects, operations, HSSE and information management BG Advance also provides the Group's corporate technical and commercial assurance and services, including resourcing and development of staff capabilities He joined BG Group from Shell and has over 30 years' international experience in the oil and gas industry, covering all aspects of the exploration and production business with assignments in the UK, Europe, the Gulf, Far East, South America and the USA

Mark Carne (49)
Mark Carne joined BG Group plc in May 2005 He is responsible for BG Group's activities in the UK, Italy, Norway and Kazakhstan and business development activities elsewhere in the Europe and Central Asia region He formerly worked for Shell where he gained extensive international experience, including general management roles in the UK, Europe, Brunei and Oman, covering operations, engineering, commercial and business development

Peter Duffy (46)
Peter Duffy joined BG Group plc in 2001, when he was appointed to his current position as Executive Vice President, Human Resources 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, resourcing and performance enhancement He previously worked for TRW Inc, LucasVarity plc and British Aerospace plc (now BAE Systems plc)

Stuart Fysh (51)
Stuart Fysh joined BG plc in 1998 and was appointed Executive Vice President in November 2003 He is currently responsible for BG Group's activities across Africa, the Middle East and Asia He previously spent 17 years with the mining, steel and petroleum conglomerate BHP, where his various roles included commercial, business development, corporate planning and research and development He has lived and worked in Australia, Pakistan, India, Singapore and Egypt

Martin Houston (50)
Martin Houston joined British Gas in 1983 and was appointed Executive Vice President in 2000 Based in Houston, he is responsible for BG Group's activities in the Americas and Australia, and for BG Group's Global LNG activities His extensive international experience has been gained through various commercial and general management roles He played a leading role in the development of BG Group's LNG business He is a non-executive director of Severn Trent Plc and a fellow of the Geological Society of London

Directors' report

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

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES
BG Energy Holdings Limited (the 'Company') is a wholly owned subsidiary of BG Group plc, the ultimate holding company of the BG Group of companies (the 'BG Group') and the entity through which BG Group plc holds all of its subsidiaries and subsidiary undertakings

The Company, its subsidiaries, subsidiary undertakings and share of jointly controlled entities and associates (the 'Group') is an integrated gas group 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

The Group's total production volumes increased by 1% in 2007 compared with 2006 Production was adversely impacted by disposals in Canada and Mauritania, and the shutdown of the Central Area Transmission System (CATS) pipeline following damage by a third-party vessel Excluding the impact of disposals and the CATS pipeline closure, production grew by 5% The UK accounted for around 27% of total E&P volumes in 2007 BG Group net production from Egypt was 56 6 million barrels of oil equivalent (mmboe), and from Kazakhstan, the BG net production from the Karachaganak field was 39 6 mmboe in 2007 Trinidad and Tobago produced 23 0 mmboe in 2007 Hydrocarbons were also produced from India, Tunisia, Thailand, Bolivia and Canada In 2007, the Group acquired exploration acreage in Canada, India, Norway, Trinidad and Tobago and the UK

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

The Group enjoys a leading LNG position in the Atlantic Basin LNG market The Group is an owner of a share in production facilities in Egypt and Trinidad and Tobago, and has agreements to purchase LNG from Nigeria and Equatorial Guinea to feed supply into markets in North America, Europe and Asia

During 2007, BG Group was responsible for meeting just over 1% of the US daily gas demand and importing around 55% of LNG delivered into the USA The Dragon LNG regasification terminal at Milford Haven, Wales, is scheduled to be operational during 2008 BG Group continues to pursue the Brindisi LNG regasification project in Italy, although no construction has taken place since February 2007 – see note 27 on page 43 During 2007, BG Group and partners sanctioned the construction of the Quintero LNG regasification plant in Quintero Bay, Chile and agreed with Elba Island's owner, El Paso Corporation, to participate in the expansion of the Elba Island LNG receiving terminal The Group also took delivery of four new LNG ships in 2007

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

2007 was another good year for BG Group's T&D businesses, with 5% sales volume growth at Comgas and distribution volume growth of 10% at Gujarat Gas BG Group sold its 25% equity stake in Interconnector (UK) Limited but retains capacity in the pipeline

POWER GENERATION (POWER)
The Group owns and operates natural gas-fired power generation plants around the world

The Group has a portfolio of mostly gas-fired power stations The Group expanded its portfolio significantly in 2007 with focused, strategic acquisitions in Italy and North America to underpin future growth

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

PRINCIPAL RISKS AND UNCERTAINTIES
The Group is subject to a broad range of risks such as political, commodity prices, reserves replacement, people resource and project delivery risks

The Directors believe that the principal risks and uncertainties of the Group, which include those of the Company, are the same as those faced by BG Group These risks are not managed separately by the Group For a detailed description of the principal risks and uncertainties facing BG Group (and therefore the Group), please refer to BG Group plc's Annual Report and Accounts 2007 – Risk factors on pages 42 to 45 In addition, certain financial risks facing the Group are also detailed in Financing and financial risk factors on page 8 of this report

RESULTS AND DIVIDEND
For the year ended 31 December 2007, the profit before tax was £3 015m (2006 £3 297m) An interim dividend of £677m was proposed and paid during 2007 (2006 £1 047m), no final dividend has been proposed Further details are set out in the Financial Statements, pages 9 to 51

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 Stock Exchange

DIRECTORS AND OFFICERS
The names of the current Directors of the Company and their biographical details are given on page 1 During the year under review, William Friedrich and Stefan Ricketts ceased to be directors, on 7 December 2007 and 3 December 2007, respectively Rick Waddell ceased to be a director of the Company on 6 March 2008

DIRECTORS' REMUNERATION
The aggregate emoluments paid to Directors during the period in respect of qualifying services was £6 321 176 (2006 £5 201 747) This figure excludes amounts paid to Frank Chapman, William Friedrich and Ashley Almanza whose emoluments are payable by BG Group plc Details of the emoluments paid to them during the period are set out in BG Group plc's Annual Report and Accounts 2007

During the period the Company contributed to a defined benefit pension scheme for all Directors except Frank Chapman, Ashley Almanza, William Friedrich and Rick Waddell Pension contributions in respect of Frank Chapman, Ashley Almanza and William Friedrich were paid by BG Group plc The Company contributed to a defined contribution US 401(K) Plan in respect of Rick Waddell

The Chairman's emoluments for the year ended 31 December 2007 were £nil Of the aggregate amount of emoluments paid to Directors during the period, £1 569 702 was paid to the highest paid Director The accrued pension of the highest paid Director as at 31 December 2007 was £164 188 per annum

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 2007 was £8m (2006 £10m)

EMPLOYEES
The Group had 5 096 employees worldwide as at 31 December 2007, of which 3 403 were employed outside the UK Employees are informed about significant business issues and the Group's performance using electronic mail, webcasts, BG Group's intranet and in-house publications, as well as 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 opportunities and equal access to development opportunities

The Group is also committed to providing a work environment free from harassment and discrimination This commitment is included in BG Group's policy on Human Resources The policy is available on the BG Group website The Group remains committed to the full and 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 BG Group policies are not able to be implemented directly

Employees are encouraged to become shareholders in BG Group plc and a significant number participate in BG Group's share schemes

COMMUNITY INVOLVEMENT
During 2007, BG Group donated around £0 3m to registered charities in the UK By 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 around £0 4m

Under BG Group's Statement of Business Principles, the Group's policy is not to make donations for political purposes In 2007, no donations were made in any EU member state for political purposes, as defined in Section 364 of the Companies Act 2006 For further information on BG Group's social investment policy, please refer to BG Group plc's Annual Report and Accounts 2007 – Corporate Responsibility on page 41

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 practices and policies are set out on pages 35 to 40

SUPPLIERS
The Group aims to adopt fair payment practices in line with each country in which it operates and aims to pay all of its creditors promptly and in accordance with contractual and other legal obligations It is the Group's policy to agree the payment terms with each supplier at the start of business and to ensure that they are aware of the terms of payment

The Group had 19 days' purchases outstanding at 31 December 2007 (2006 25 days') based on the average daily amount invoiced by suppliers during the year

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
As required by Section 234ZA of the Companies Act 1985, each of the Directors has approved this report and confirmed that, so far as he is aware, there is no relevant audit information (being information needed by the Auditors in connection with preparing their audit report) of which the Company's Auditors are unaware, and he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information

GOING CONCERN
The Directors are satisfied that the Group's and the Company's activities are sustainable for the foreseeable future, and that the business is a going concern and the accounts have therefore been prepared on this basis

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 9 to 51, 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 in this report

The Directors have general responsibility for ensuring that the Company keeps accounting records that 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

A copy of the Financial Statements of the Company is placed in the Investor Relations section of the BG Group website (www bg-group com) The work carried out by the Auditors does not involve consideration of the maintenance of the BG Group website and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website

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

By order of the Board
Keith Hubber
Company Secretary

28 May 2008

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

Registered in England & Wales No 3763515

Independent Auditors' report to the members of BG Energy Holdings Limited

We have audited the Group Financial Statements of BG Energy Holdings Limited for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated 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 2007

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 whether in our opinion the information given in the Directors' report is consistent with the Group Financial Statements

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group Financial Statements The other information comprises only the Directors' Report 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 2007 and of its profit and cash flows for the year then ended,
- the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the Group Financial Statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH
9 June 2008

Principal accounting policies

BASIS OF PREPARATION
The Financial Statements for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC) interpretations These include standards and interpretations adopted 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 primarily 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 prepared under UK GAAP Those Financial Statements and the principal accounting policies adopted in relation to those statements are set out on page 53 The Auditors' report for the Company's Financial Statements is on page 52

The preparation of Financial Statements in conformity with Generally Accepted Accounting Principles (GAAP) 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 The Group believes that the accounting policies associated with exploration expenditure, depreciation, decommissioning, impairments, financial instruments including commodity contracts and revenue recognition are the policies where changes in estimates and assumptions could have a significant impact on the Financial Statements These are discussed on pages 13 to 18 and in note 6, page 25, note 11, page 27 and note 21, page 35

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 BG Group plc's Annual Report and Accounts 2007

BASIS OF CONSOLIDATION
The Financial Statements 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 the Group's Exploration and Production activity is conducted through jointly controlled operations The Group 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, certain re-measurements and impairments 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 at which the asset is ready for its intended use

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 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

The Group 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

Principal accounting policies continued

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

REVENUE RECOGNITION
The Group 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 including natural gas) 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 LNG and associated products are recognised when title passes to the customer 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

For power stations which are contracted based on availability, revenue is recognised based on the availability status of the power station to produce at a given point in time Where power output is sold under pool or other contractual arrangements and where revenue is linked to the costs of actual production, revenue is recognised when the output is delivered

All other revenue is recognised when title passes to the customer

EXPLORATION EXPENDITURE
The Group 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 relate to offshore and frontier areas where further work is being undertaken on geological and geophysical assessment, development design and commercial arrangements

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 (the functional currency of the Company and the presentation currency of the Group) 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

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

The Group has certain long-term arrangements under which it has acquired all of the capacity of certain property, plant and equipment In circumstances where it is considered that the Group has the majority of the risks and rewards of ownership of the plant, the arrangement is considered to contain a finance lease

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

FINANCIAL INSTRUMENTS
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.

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 using the market yield curve at the balance sheet date

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 Liabilities associated with financial guarantee contracts are initially measured at fair value and re-measured at each balance sheet date

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 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 short-term contracts for the purchase and subsequent re-sale 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 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 and location of its physical gas and LNG commitments 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

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

Contributions made to defined contribution pension plans are charged to the income statement when payable

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 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

8 Financing and Financial Risk Factors

FINANCING

Net funds (comprising cash and cash equivalent investments, finance leases, currency and interest rate derivative financial instruments and short and long-term borrowings) were £25 million compared to £103 million of net borrowings as at 31 December 2006

All borrowing and investment of surplus funds, 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 (the 'Company'), including wholly-owned subsidiary undertakings of the Company, the majority of whose borrowings are guaranteed by the Company (collectively 'BGEH Borrowers'), and Comgas and Gujarat Gas, which conduct their borrowing activities on a stand-alone basis and whose borrowings are made without recourse to other members of the Group

As at 31 December 2007, the Company had aggregate committed multicurrency revolving borrowing facilities of US$1 040m, which mature in 2012 There are no restrictions on the application of funds under these facilities, all of which were undrawn as at 31 December 2007 BGEH Borrowers had a US$1 billion US Commercial Paper Programme, which was unutilised, a US$1 billion Eurocommercial Paper Programme, of which US$969m was unutilised, and a US$2 billion Euro Medium Term Note Programme, of which US$1 550m was unutilised In addition, at 31 December 2007, BGEH had uncommitted borrowing facilities including multicurrency lines, overdraft facilities of £60m and credit facilities of US$40m, all of which were unutilised BGEH Borrowers are also lessees under a number of LNG ship charters that constitute finance leases As at 31 December 2007, Comgas had committed borrowing facilities of Brazilian Reals (BRL) 1 795m (£504m), of which BRL 395m (£111m) was unutilised, and uncommitted borrowing facilities of BRL 578m (£162m), all of which were unutilised Some of the borrowings of Comgas have restrictions on their use, being linked to capital projects

The Group proposes to meet its commitments from the operating cash flows of the business, existing cash and cash equivalent investments, from the money and capital markets and existing committed lines of credit

FINANCIAL RISK FACTORS

The principal financial risks arising from financial instruments are commodity price risk, exchange rate risk, interest rate risk, liquidity risk and credit risk A description of these principal risks and the actions taken by management to mitigate some of the exposure is outlined below

Commodity prices

The Group's results are sensitive to crude oil and natural gas prices which are dependent on a number of factors impacting upon world supply and demand The Group's exposure to short-term changes in commodity prices is mitigated by the predominance of gas in its portfolio and the use of long-term gas contracts, which are not directly or immediately linked to short-term changes in commodity prices

Over the medium term, commodity price increases can cause supply or capacity constraints in areas such as specialist staff, construction or operations This can in turn create cost pressure on the Group's operating and capital costs, which affect ongoing financial performance

The Group does not, as a matter of course, hedge all commodity prices, but may hedge certain LNG contracts and gas and oil revenue streams from time to time In marketing its gas supply portfolio, the Group undertakes commodity hedging and trading activities including the use of natural gas futures contracts, financial and physical forward based contracts and swap contracts The potential exposure to fluctuations in natural gas sales prices is also mitigated within certain LNG purchase contracts where the gas suppliers share price risk with the Group

Fluctuations in exchange rates

The Group's cash flow, income statement and balance sheet are reported in pounds Sterling and may be 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 The Group's net balance sheet exposure to currencies other than the US Dollar or pounds Sterling, primarily to the Brazilian Real, is 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 that borrow without recourse to the Group are generally required to borrow in, or swap borrowings into, their respective functional currency

Interest rate and liquidity 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

Credit

The Group is exposed to credit risks, being the loss that would be recognised if counterparties failed to, or were 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 is also exposed to political and economic risk events, which may cause non-payment of foreign currency obligations to the Group

The Group considers each counterparty's financial condition prior to entering into commercial contracts, 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 for financial transactions This provides netting of transactions covered by the specific ISDA documentation For physical commodity trading, the Group seeks to put in place bespoke master netting agreements or European Federation of Energy Traders (EFET), North American Energy Standards Board (NAESB) and National Balancing Point (NBP) agreements, as appropriate

Consolidated income statement

		for the year ended 31 December					
		2007			2006		
	Notes	Business Performance £m	Disposals, re-measurements and impairments £m	Total £m	Business Performance £m	Disposals, re-measurements and impairments £m	Total £m
Group revenue	2	**8 291**	**–**	**8 291**	7 136	–	7 136
Other operating income	3, 6	**39**	**(172)**	**(133)**	134	404	538
Group revenue and other operating income	2	**8 330**	**(172)**	**8 158**	7 270	404	7 674
Operating costs	4	**(5 318)**	**–**	**(5 318)**	(4 388)	(104)	(4 492)
Profit/(loss) on disposal of non-current assets	6	**–**	**19**	**19**	–	(49)	(49)
Operating profit/(loss)[a]	2	**3 012**	**(153)**	**2 859**	2 882	251	3 133
Finance income	6, 7	**146**	**6**	**152**	104	23	127
Finance costs	6, 7	**(155)**	**(4)**	**(159)**	(80)	(22)	(102)
Share of post-tax results from joint ventures and associates	2	**163**	**–**	**163**	139	–	139
Profit/(loss) before tax		**3 166**	**(151)**	**3 015**	3 045	252	3 297
Taxation	6, 8	**(1 348)**	**115**	**(1 233)**	(1 354)	(113)	(1 467)
Profit/(loss) for the year	2, 6	**1 818**	**(36)**	**1 782**	1 691	139	1 830
Profit attributable to							
Shareholder (earnings)	2, 6	**1 765**	**(37)**	**1 728**	1 646	139	1 785
Minority interests	2, 6	**53**	**1**	**54**	45	–	45
		1 818	**(36)**	**1 782**	1 691	139	1 830

(a) Operating profit/(loss) is before share of results from joint ventures and associates

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 27

Consolidated statement of recognised income and expense

for the year ended 31 December

	Notes	2007 £m	2006 £m
Profit for the year		**1 782**	1 830
Net fair value (losses)/gains on cash flow hedges	26	**(121)**	103
Transfers to income statement on cash flow hedges	26	**(7)**	(1)
Net fair value gains on net investment hedges	26	**6**	80
Tax on cash flow and net investment hedges	26	**36**	(55)
Currency translation adjustments[a]	26	**101**	(575)
Net gains/(losses) recognised directly in equity		**15**	(448)
Total recognised income for the year		**1 797**	1 382
Attributable to			
Shareholder		**1 730**	1 343
Minority interests		**67**	39
		1 797	1 382

(a) In 2007 a £7m gain (2006 £1m loss) was transferred to the income statement as part of the profit/(loss) on disposal of foreign operations

The accounting policies on pages 5 to 8 together with the notes on pages 13 to 51 form part of these accounts

Consolidated balance sheet

	Notes	as at 31 December 2007 £m	2006 £m
Assets			
Non-current assets			
Goodwill	11	**385**	328
Other intangible assets	12	**823**	694
Property, plant and equipment	13	**7 426**	5 960
Investments accounted for using equity method	14	**1 157**	1 086
Deferred tax assets	24	**79**	74
Trade and other receivables	17	**70**	49
Commodity contracts and other derivative financial instruments	21	**378**	273
		10 318	8 464
Current assets			
Inventories	16	**382**	247
Trade and other receivables	17	**2 261**	1 854
Current tax receivable		**52**	–
Commodity contracts and other derivative financial instruments	21	**489**	575
Cash and cash equivalents	18	**1 879**	1 462
		5 063	4 138
Assets classified as held for sale	19	**–**	85
Total assets		**15 381**	12 687
Liabilities			
Current liabilities			
Borrowings	20	**(275)**	(103)
Trade and other payables	22	**(2 895)**	(2 502)
Current tax liabilities		**(552)**	(357)
Commodity contracts and other derivative financial instruments	21	**(804)**	(741)
		(4 526)	(3 703)
Non-current liabilities			
Borrowings	20	**(1 668)**	(1 559)
Trade and other payables	22	**(30)**	(21)
Commodity contracts and other derivative financial instruments	21	**(366)**	(90)
Deferred tax liabilities	24	**(1 258)**	(1 146)
Retirement benefit obligations	29	**(165)**	(167)
Provisions for other liabilities and charges	23	**(662)**	(387)
		(4 149)	(3 370)
Liabilities associated with assets classified as held for sale	19	**–**	(34)
Total liabilities		**(8 675)**	(7 107)
Net assets		**6 706**	5 580

The accounting policies on pages 5 to 8 together with the notes on pages 13 to 51 form part of these accounts

Consolidated balance sheet continued

	Notes	as at 31 December 2007 £m	2006 £m
Equity	25, 26		
Ordinary shares		**2 898**	2 898
Share premium		**316**	316
Hedging reserve		**(39)**	51
Translation reserve		**(164)**	(256)
Retained earnings		**3 563**	2 469
Total shareholders' equity		**6 574**	5 478
Minority interest in equity		**132**	102
Total equity		**6 706**	5 580

All inter-company transactions are eliminated on consolidation Commitments and contingencies are shown in note 27, page 43

The accounts on pages 5 to 51 were approved by the Board and signed on its behalf on 28 May 2008 by

Ashley Almanza, Director

The accounting policies on pages 5 to 8 together with the notes on pages 13 to 51 form part of these accounts

Consolidated cash flow statement

	Notes	2007 £m	2006 £m
		for the year ended 31 December	
Cash generated by operations	30	**3 667**	3 349
Income taxes paid		**(951)**	(1 000)
Net cash inflow from operating activities		**2 716**	2 349
Cash flows from investing activities			
Dividends received		**148**	193
Proceeds from disposal of subsidiary undertakings and investments		**461**	9
Proceeds from disposal of property, plant and equipment and intangible assets		**3**	49
Purchase of property, plant and equipment and intangible assets		**(1 718)**	(1 313)
Loans (to)/from joint ventures and associates		**(82)**	(66)
Business combinations and investments[a]	15	**(497)**	(67)
Net cash outflow from investing activities		**(1 685)**	(1 195)
Cash flows from financing activities			
Interest paid[b]		**(164)**	(121)
Interest received		**132**	135
Dividends paid		**(677)**	(1 047)
Dividends paid to minority		**(37)**	(36)
Net proceeds from issue of new borrowings[c]		**444**	214
Repayment of borrowings		**(290)**	(192)
Issue of shares to minority shareholders		**–**	1
Funding movements with parent company		**(32)**	(115)
Net cash outflow from financing activities		**(624)**	(1 161)
Net increase/(decrease) in cash and cash equivalents		**407**	(7)
Cash and cash equivalents at 1 January	18	**1 462**	1 516
Effect of foreign exchange rate changes		**10**	(47)
Cash and cash equivalents at 31 December	18	**1 879**	1 462

Major non-cash transactions included assets acquired during the year of £53m (2006 £199m) financed through finance lease arrangements and a provision of £156m to reflect the present obligation under retained capacity contracts in the Interconnector pipeline following the sale of the Group's 25% equity interest in Interconnector (UK) Limited (see note 6, page 25)

(a) In 2007 includes the purchase of the remaining equity (66 3%) of Serene S p.A (now BG Italia Power S p A) net of cash acquired of £27m and the purchase of Lake Road and Masspower power plants (see note 15 page 31) In 2006 includes the purchase of the Dighton power plant and deferred consideration for the acquisition of BG Brindisi LNG S p.A which was acquired in 2005
(b) Includes capitalised interest of £37m (2006 £54m)
(c) Includes net cash flows relating to short maturity financing items

The accounting policies on pages 5 to 8 together with the notes on pages 13 to 51 form part of these accounts

1 NEW ACCOUNTING STANDARDS AND POST BALANCE SHEET EVENTS

The impact of new accounting standards, amendments and interpretations on the Group's Financial Statements for 2007 is set out below

IFRS 7 'Financial Instruments Disclosures'
The Group has adopted the disclosure requirements in respect of financial instruments set out in IFRS 7 for the first time in these Financial Statements IFRS 7 requires disclosure of the significance of financial instruments for the Group's financial position and performance, and qualitative and quantitative information about exposure to risks arising from financial instruments This includes disclosures about credit risk, liquidity risk and market risk This information can be found in note 21, page 35 and Financing and financial risk factors section, page 8

Additional interpretations issued by IFRIC were mandatory for the year ended 31 December 2007 but did not result in any changes to the Group's accounting policies or disclosure

The following standards, amendments and interpretations have been issued by the IASB and IFRIC during 2007 but have not yet been endorsed by the EU or adopted by the Group

Amendments to IAS 23 'Borrowing Costs'
The IASB issued amendments to IAS 23 in March 2007 The main change from the previous version of IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale The Group's accounting policy is to capitalise costs associated with borrowings used to finance major capital projects and therefore the application of these amendments will not have a material impact on the Group's results The amendments to the standard are applicable for accounting periods beginning on or after 1 January 2009

Amendments to IAS 1 'Presentation of Financial Statements'
The IASB issued amendments to IAS 1 in September 2007 The main changes from the previous version of IAS 1 are primarily in relation to the reporting of owner changes in equity and comprehensive income The amended standard requires that all changes in equity with owners must be presented separately from non-owner changes in equity, with income and expenses associated with non-owner changes in equity being presented either in a statement of comprehensive income or a separate income statement and a statement of comprehensive income The amended standard is applicable for accounting periods beginning on or after 1 January 2009 The application of the amendments is not expected to have a material impact on the way in which the Group presents its Financial Statements

In addition, IFRIC issued IFRIC 13 'Customer Loyalty Programmes' and IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' Neither interpretation is expected to have a material impact on the Group's Financial Statements

The Group will adopt the following standards and interpretations in 2008, subject to endorsement by the EU

IFRS 8 'Operating Segments'
IFRS 8 sets out the requirements for disclosure about an entity's operating segments and also about an entity's products and services, the geographical areas in which it operates and its major customers This standard is mandatory for financial statements beginning on or after 1 January 2009, although earlier application is permitted and the Group intends to apply this standard in its Financial Statements for the year ended 31 December 2008

IFRIC 12 'Service Concession Arrangements'
IFRIC 12 provides guidance on the accounting by operators for public-to-private service concession arrangements It is applicable for accounting periods beginning on or after 1 January 2008 although it has not yet been adopted by the EU The Group is currently reviewing the interpretation to determine the likely impact on the Group

2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION

The primary reporting segments for the Group's operations in 2007 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 In 2007 most of the operations were managed in five main geographical areas Europe and Central Asia, South America, Asia Pacific, North America and the Caribbean, and Mediterranean Basin and Africa From 1 January 2008, the Group's Asia Pacific and Mediterranean Basin and Africa regions were consolidated into the newly created Africa, Middle East and Asia region The Group's South America and North America and Caribbean regions were consolidated into the newly created Americas and Global LNG region The segmental analysis and results presentation in this note is aligned with the way the business was managed in 2007

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 the Group's activities are shown in this note, analysed by business segment and geographical segment

2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION continued

PROFIT FOR THE YEAR

Analysed by business segment

for the year ended 31 December	2007 £m	2006 £m
Group revenue		
Exploration and Production	**4 063**	3 902
Liquefied Natural Gas	**3 038**	2 334
Transmission and Distribution	**978**	877
Power Generation	**521**	248
Other activities	**7**	8
Less intra-group sales[a]	**(316)**	(233)
Group revenue	**8 291**	7 136
Other operating income	**(133)**	538
Group revenue and other operating income	**8 158**	7 674
Operating profit/(loss) before share of results from joint ventures and associates[b]		
Exploration and Production	**2 233**	2 794
Liquefied Natural Gas	**394**	179
Transmission and Distribution	**214**	191
Power Generation	**44**	18
Other activities	**(26)**	(49)
	2 859	3 133
Finance income	**152**	127
Finance costs	**(159)**	(102)
Share of post-tax results from joint ventures and associates	**163**	139
Profit before tax	**3 015**	3 297
Taxation	**(1 233)**	(1 467)
Profit for the year	**1 782**	1 830
Profit attributable to		
Shareholder (earnings)	**1 728**	1 785
Minority interests	**54**	45
	1 782	1 830

(a) Intra group sales are attributable to segments as follows E&P £237m (2006 £233m) and LNG £79m (2006 £nil)

(b) Operating profit/(loss) before share of results from joint ventures and associates includes disposals and provisions for impairment of £19m (2006 £(153)m) attributable to segments as follows E&P £18m (2006 £(67)m) LNG £nil (2006 £(69)m) T&D £1m (2006 £1m) and Other activities £nil (2006 £(18)m) Also included are (i) non-cash re-measurements of £(172)m (2006 £404m) attributable to the E&P segment and (ii) £104m (2006 £113m) of unsuccessful exploration expenditure written off and charged 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	2007 £m	2006 £m
Group revenue		
Europe and Central Asia	**3 081**	3 105
South America	**877**	806
Asia Pacific	**1 594**	801
North America and the Caribbean	**2 051**	1 583
Mediterranean Basin and Africa	**688**	841
Group revenue [a]	**8 291**	7 136
Other operating income	**(133)**	538
Group revenue and other operating income	**8 158**	7 674
Operating profit/(loss) before share of results from joint ventures and associates [b]		
Europe and Central Asia	**1 358**	1 696
South America	**181**	165
Asia Pacific	**274**	247
North America and the Caribbean	**732**	649
Mediterranean Basin and Africa	**314**	376
	2 859	3 133
Finance income	**152**	127
Finance costs	**(159)**	(102)
Share of post-tax results from joint ventures and associates	**163**	139
Profit before tax	**3 015**	3 297
Taxation	**(1 233)**	(1 467)
Profit for the year	**1 782**	1 830
Profit attributable to		
Shareholder (earnings)	**1 728**	1 785
Minority interests	**54**	45
	1 782	1 830

(a) Based on destination
(b) Based on location of operational management

JOINT VENTURES AND ASSOCIATES

Analysed by business segment

for the year ended 31 December	Pre-tax share of operating results of joint ventures and associates 2007 £m	2006 £m	Share of net finance costs and tax of joint ventures and associates 2007 £m	2006 £m	Share of post tax results from joint ventures and associates 2007 £m	2006 £m
Liquefied Natural Gas	**127**	104	**(49)**	(49)	**78**	55
Transmission and Distribution	**34**	41	**(6)**	(16)	**28**	25
Power Generation	**86**	88	**(29)**	(29)	**57**	59
	247	233	**(84)**	(94)	**163**	139

Analysed by geographical segment

for the year ended 31 December	Pre-tax share of operating results of joint ventures and associates 2007 £m	2006 £m	Share of net finance costs and tax of joint ventures and associates 2007 £m	2006 £m	Share of post tax results from joint ventures and associates 2007 £m	2006 £m
Europe and Central Asia	**43**	54	**(17)**	(26)	**26**	28
South America	**12**	12	**1**	(3)	**13**	9
Asia Pacific	**65**	63	**(19)**	(16)	**46**	47
North America and the Caribbean	**99**	85	**(31)**	(29)	**68**	56
Mediterranean Basin and Africa	**28**	19	**(18)**	(20)	**10**	(1)
	247	233	**(84)**	(94)	**163**	139

2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION continued

NET ASSETS, TOTAL ASSETS AND TOTAL LIABILITIES

Analysed by business segment

as at 31 December	Total assets[a] 2007 £m	Total assets[a] 2006 £m	Total liabilities 2007 £m	Total liabilities 2006 £m	Net assets/(liabilities)[b] 2007 £m	Net assets/(liabilities)[b] 2006 £m
Exploration and Production	**7 589**	6 571	**(2 418)**	(1 797)	**5 171**	4 774
Liquefied Natural Gas	**2 996**	2 594	**(969)**	(748)	**2 027**	1 846
Transmission and Distribution	**1 415**	1 141	**(383)**	(202)	**1 032**	939
Power Generation	**1 128**	621	**(82)**	(131)	**1 046**	490
Other activities	**56**	58	**(105)**	(90)	**(49)**	(32)
Net borrowings, net interest and tax[c]	**2 197**	1 702	**(4 718)**	(4 139)	**(2 521)**	(2 437)
	15 381	12 687	**(8 675)**	(7 107)	**6 706**	5 580

(a) Total assets includes investment in joint ventures and associates of £1 156m (2006 £1 085m) attributable to segments as follows LNG £740m (2006 £639m) T&D £118m (2006 £110m) and Power £298m (2006 £336m)

(b) Includes net assets classified as held for sale of £nil (2006 £51m) attributable to segments as follows E&P £nil (2006 £62m) and Other activities £nil (2006 £(11)m) Further details on assets held for sale are given in note 19 page 33

(c) Includes amounts owed to parent undertaking of £852m (2006 £895m)

Analysed by geographical segment

as at 31 December	Total assets[a] 2007 £m	Total assets[a] 2006 £m	Total liabilities 2007 £m	Total liabilities 2006 £m	Net assets/(liabilities)[b] 2007 £m	Net assets/(liabilities)[b] 2006 £m
Europe and Central Asia	**4 551**	3 978	**(2 179)**	(1 644)	**2 372**	2 334
South America	**1 693**	1 315	**(251)**	(210)	**1 442**	1 105
Asia Pacific	**877**	748	**(195)**	(163)	**682**	585
North America and the Caribbean	**3 935**	3 192	**(1 032)**	(781)	**2 903**	2 411
Mediterranean Basin and Africa	**2 128**	1 752	**(300)**	(170)	**1 828**	1 582
Net borrowings, net interest and tax	**2 197**	1 702	**(4 718)**	(4 139)	**(2 521)**	(2 437)
	15 381	12 687	**(8 675)**	(7 107)	**6 706**	5 580

(a) Total assets includes investment in joint ventures and associates of £1 156m (2006 £1 085m) attributable to segments as follows Europe and Central Asia £314m (2006 £318m) South America £155m (2006 £75m) Asia Pacific £190m (2006 £182m) North America and the Caribbean £429m (2006 £436m) and Mediterranean Basin and Africa £68m (2006 £74m)

(b) Includes net assets classified as held for sale of £nil (2006 £51m) attributable to segments as follows Europe and Central Asia £nil (2006 £(11)m) Mediterranean Basin and Africa £nil (2006 £62m) Further details on assets held for sale are given in note 19 page 33

DEPRECIATION, AMORTISATION AND IMPAIRMENT

Analysed by business segment

for the year ended 31 December	2007 £m	2006 £m
Exploration and Production[a]	**555**	585
Liquefied Natural Gas[b]	**46**	141
Transmission and Distribution	**33**	28
Power Generation	**42**	19
Other activities[c]	**5**	6
	681	779

Analysed by geographical segment

for the year ended 31 December	2007 £m	2006 £m
Europe and Central Asia[b] [c]	**364**	383
South America	**36**	30
Asia Pacific	**55**	48
North America and the Caribbean	**102**	87
Mediterranean Basin and Africa[a]	**124**	231
	681	779

(a) In 2006 includes a provision for impairment of £64m in respect of Mauritania Holdings B V which is held within the Mediterranean Basin and Africa segment.

(b) In 2006 includes a provision for impairment of £104m in respect of Brindisi LNG S p.A. which is held within the Europe and Central Asia segment

(c) In 2006 includes a provision for impairment of £3m in respect of Microgen which is included within the Europe and Central Asia segment

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]	
	2007 £m	2006 £m	2007 £m	2006 £m
Exploration and Production	**1 652**	1 165	**1 652**	1 165
Liquefied Natural Gas	**71**	399	**194**	496
Transmission and Distribution	**116**	122	**117**	123
Power Generation	**5**	8	**520**[c]	55[c]
Other activities	**14**	8	**14**	8
	1 858	1 702	**2 497**	1 847

Analysed by geographical segment

for the year ended 31 December	Capital expenditure[a]		Capital investment[b]	
	2007 £m	2006 £m	2007 £m	2006 £m
Europe and Central Asia	**627**	491	**753**[c]	530
South America	**172**	198	**248**	199
Asia Pacific	**135**	127	**135**	127
North America and the Caribbean	**303**	549	**740**[c]	654[c]
Mediterranean Basin and Africa	**621**	337	**621**	337
	1 858	1 702	**2 497**	1 847

(a) Comprises expenditure on property plant and equipment and other intangible assets
(b) Comprises expenditure on property plant and equipment other intangible assets and investments including business combinations
(c) Includes business combinations Further details of 2007 business combinations are given in note 15 page 31

3 OTHER OPERATING INCOME

Other operating income includes the results of the purchase and re-sale of third-party gas in the UK, 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 35 Further information on other operating income is given in note 6, page 25

4 OPERATING COSTS

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

	2007 £m	2006 £m
Raw materials, consumables and finished goods	2 675	2 199
Inventory adjustments to net realisable value[a]	–	16
Employee costs (see note 5(C), page 20)	428	370
Less Own work capitalised	(48)	(45)
Employee costs included within Other exploration expenditure and Research and development, below	(25)	(17)
Employee costs included within Finance costs	(1)	(2)
	354	306
Amounts written off Other intangible assets and Property, plant and equipment		
Depreciation and impairments of property, plant and equipment (see note 13, page 29)	677	745
Amortisation and impairments of other intangible assets (see note 12, page 28)	4	34
Less impairments reported within profit/(loss) on disposal	–	(67)
	681	712
Unsuccessful exploration expenditure written off	104	113
Other operating charges		
Other exploration expenditure	232	159
Lease rentals		
Plant and equipment	104	80
Other assets	22	19
Research and development	8	10
Tariffs, royalties, liquefaction and regasification costs	485	398
Other costs[b]	653	480
	5 318	4 492

(a) Includes revaluation of LNG in storage
(b) Includes lifting, storage marketing and general administration costs

ACCOUNTANTS' FEES AND SERVICES

PricewaterhouseCoopers LLP has served as the Group's independent public accountants for each of the financial years in the two year period ended 31 December 2007, for which audited financial statements appear in this Annual Report The external Auditors are subject to re-appointment at the AGM

The audit fees relating to BG Energy Holdings Limited for the audit of the Parent Company and the Group's accounts for 2007 was £31 500 (2006 £30 000)

The following table presents the aggregate fees for professional services and other services rendered by PricewaterhouseCoopers LLP to BGEH Group

	2007 £m	2006 £m
Fees payable to the Group's auditor and its associates for		
The audit of the Parent's subsidiaries, pursuant to legislation	0 9	0 6
Other services pursuant to legislation[a]	0 6	1 3
Tax services[b]	0 1	0 8
Services relating to information technology	0 1	–
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	0 1	0 1
All other services[c]	0 3	0 5
	2 1	3 3

4 OPERATING COSTS continued

In 2007, £31 000 of audit fees relates to audits of the pension schemes (2006 £26 000)

(a) Other services pursuant to legislation include costs relating to regulatory reporting including costs related to compliance with the Sarbanes Oxley Act of 2002 prior to BG Group plc's decision to de-list from the New York Stock Exchange and to de register and terminate its reporting obligations under the Securities Exchange Act of 1934 Other services pursuant to legislation also include costs relating to interim reviews

(b) Tax services include fees billed for tax compliance services including the preparation of original and amended tax returns and claims for refund tax consultations such as assistance and representation in connection with tax audits and appeals tax advice related to mergers and acquisitions transfer pricing, and requests for rulings or technical advice from tax authorities tax planning services, and expatriate tax planning and services

(c) All other services fees include fees billed for quarterly reviews attestation services consultations concerning financial accounting and reporting standards forensic accounting, control reviews and other advice

5 DIRECTORS AND EMPLOYEES

A) DIRECTORS' REMUNERATION

Directors' remuneration is given in the Directors' report on page 2

B) KEY MANAGEMENT COMPENSATION

Key management are considered to be the Directors and their remuneration is given in the Directors' report on page 2

	2007 £m	2006 £m
Salaries	**3**	3
Benefits	**1**	–
Bonus[a]	**3**	2
Pension benefit	**1**	1
Share-based payments	**4**	4
	12	10

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

(a) Bonus figures for 2007 represent payments under the Annual Incentive Scheme (AIS) in respect of the 2007 incentive year which were made in 2008 Figures for 2006 represent payments under the AIS in respect of the 2006 incentive year which were made in 2007

C) EMPLOYEE COSTS

	2007 £m	2006 £m
Wages and salaries	**247**	213
Social security costs	**24**	20
Pension charge [a]	**55**	54
Share-based payments (see note 5(E), page 21)	**55**	37
Other including incentive schemes	**47**	46
	428	370

(a) The pension charge for the year ended 31 December 2007 includes £1m (2006 £2m) in respect of payments made for pension curtailments in redundancy £1m (2006 £2m) of which has been provided in prior years as part of a restructuring provision The pension charge for the year ended 31 December 2007 includes £1m (2006 £2m) which is presented within finance costs (see note 7 page 26)

In 2007, employee costs of £380m (2006 £325m) were charged to the income statement and £48m (2006 £45m) were capitalised

5 DIRECTORS AND EMPLOYEES continued

D) AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR

	Employed in the UK		Employed outside the UK	
	2007 Number	2006 Number	**2007 Number**	2006 Number
Exploration and Production	**1 268**	1 188	**1 441**	1 325
Liquefied Natural Gas	**110**	119	**346**	250
Transmission and Distribution	**78**	73	**1 382**	1 286
Power Generation	**195**	186	**76**	22
Other activities	**9**	65	**41**	147
	1 660[(a)]	1 631[(a]	**3 286**	3 030

(a) In 2007 an average of 30 employees were employed by the Company (2006 35)

E) SHARE-BASED PAYMENTS

The cost recognised in respect of share-based payments for 2007 was £55m (2006 £37m) of which £29m (2006 £26m) related to equity-settled share-based payment transactions

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 2007 Details of share options held by Frank Chapman, William Friedrich and Ashley Almanza, are given in BG Group plc's Annual Report and Accounts 2007

The first grants under the CSOS were made in November 2000 Further grants have been made in all subsequent years up to and including 2007 In 2007, grants of 12 9m (2006 14 8m) 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 2007, the amount recharged to the Group from BG Group plc in respect of the CSOS was £16m (2006 £14m)

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 £7 87 (2006 £6 84), exercise price of £7 92 (2006 £6 90), dividend yield of 1 0% (2006 1 0%), volatility of 22% (2006 21%), a risk-free rate of 5 16% (2006 4 70%) and an expected life of five years (2006 five years) The average value of share options granted during the year was £2 09 per share (2006 £1 70 per share)

Expected volatility for the 2006 and 2007 awards was determined by calculating the historical volatility of BG Group plc's share price over the previous five year period For awards in prior years, a three year period was 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 2007 Details of notional allocations to Frank Chapman, William Friedrich and Ashley Almanza, are given in BG Group plc's Annual Report and Accounts 2007 In 2007, notional allocations of 4 0m ordinary shares (2006 3 6m ordinary shares) were made under the LTIS

The costs of this scheme are charged to the income statement over the vesting period, based upon the fair value of the shares at the award date, adjusted for the probability of market-related performance conditions being achieved In 2007, the amount recharged to the Group from BG Group plc in respect of the LTIS was £8m (2006 £7m)

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

Expected volatility was determined by calculating the historical volatility of the share price over the previous three year period Share price correlation was determined by calculating the historical correlation of the share price over the previous three year period Average share price growth was determined from historical growth over the previous year

5 DIRECTORS AND EMPLOYEES continued

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 2007 Details of share options held by Frank Chapman, William Friedrich and Ashley Almanza, are given in BG Group plc's Annual Report and Accounts 2007 In 2007, grants of 0 7m (2006 0 7m) share options were made under the Sharesave Scheme

The costs of this scheme are charged to the 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 2007, the amount recharged to the Group from BG Group plc in respect of the Sharesave Scheme was £1m (2006 £1m)

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 £10 06 (2006 £6 84), exercise price of £7 16 (2006 £5 82), dividend yield of 1 0% (2006 1 0%), volatility of 25% (2006 22%), a weighted average risk-free rate of 4 47% (2006 4 74%) and a weighted average expected life of 3 years (2006 4 1 years) The average fair value of share options granted during the year was £3 76 per share (2006 £2 11 per share)

Expected volatility was determined by calculating the historical volatility of the 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

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 2007 During the year, 0 6m ordinary shares were awarded as Free Shares under the plan (2006 0 5m ordinary shares)

Under IFRS 2 the charge to the income statement 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 £7 30 per share (2006 £7 73 per share) In 2007, the amount recharged to the Group from BG Group plc in respect of the SIP was £4m (2006 £4m)

Cash-Settled Share-Based Payments
Cash-settled share-based payments arise when the Group incurs a liability to transfer cash amounts that are based on the price (or value) of BG Group plc's shares

A charge of £4m has been made in respect of cash-settled CSOS awards (2006 £3m) the terms of which are the same as the equity-settled CSOS awards and a charge of £22m (2006 £8m) has been made in respect of social security costs on employee share option and share schemes The charge for cash-settled CSOS awards and social security costs on employee share option and share schemes covers awards made before and after 7 November 2002

During the vesting period the costs of the cash-settled CSOS awards are charged to the income statement based on the fair value of the share option at the balance sheet date and the likelihood of allocation vesting under the scheme The fair value of the non-vested cash-settled options at the balance sheet date has been estimated using a Black-Scholes option pricing model with the following assumptions BG Group plc share price of £11 50 (2006 £7 03), weighted average exercise price of £7 67 (2006 £4 72), dividend yield of 1 0% (2006 1 0%), volatility of 22 60% (2006 20 80%), a weighted average risk-free rate of 4 72% (2006 5 09%) and an expected life of five years (2006 three years) The average fair value of cash-settled CSOS awards at the balance sheet date was £5 04 (2006 £3 02) For awards that had vested, but not been exercised at the balance sheet date, the fair value was the intrinsic value of the award at the balance sheet date

The charge to the 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

The fair value of the awards that had not vested at the balance sheet date has been estimated using a Black-Scholes option pricing model or the Monte Carlo projection model where appropriate For CSOS awards the following assumptions were used share price of £11 50 (2006 £7 03), weighted average exercise price of £6 68 (2006 £5 10), dividend yield of 1 0% (2006 1 0%), volatility of 22 60% (2006 20 80%), a weighted average risk-free rate of 4 70% (2006 5 08%) and a weighted average expected life of four years (2006 four years) The average fair value of non-vested CSOS awards at the balance sheet date was £5 64 (2006 £2 81) For awards that had vested, but not been exercised at the balance sheet date, the fair value was the intrinsic value of the award at the balance sheet date

For the LTIS awards the following assumptions were used share price of £11 50 (2006 £7 03), volatility of 24 80% (2006 22 34%), a weighted average risk-free rate of 4 69% (2006 5 20%) and a weighted average expected life of two years (2006 two years) The average fair value of LTIS awards at the balance sheet date was £8 90 (2006 £3 40)

5 DIRECTORS AND EMPLOYEES continued

F) ANALYSIS OF SHARE OPTIONS AS AT 31 DECEMBER 2007

	Date of grant	Number of shares m	Weighted average option price £	Normal exercisable date	Weighted average remaining contractual life
Sharesave Scheme options					
	2002	0 03	2 19	2007	0yr 4mths
	2003	0 12	2 19	2008	1yrs 4mths
	2004	0 54	2 74	2007/9	1yrs 10mths
	2005	0 43	3 95	2008/10	2yrs 1mth
	2006	0 64	5 82	2009/11	3yrs 6mths
	2007	**0 69**	**7 16**	**2011**	**3yrs 6mths**
Company Share Option Scheme options[a]					
	2000	0 41	2 685	2010	2yrs 10mths
	2001	1 02	2 5634	2011	3yrs 10mths
	2002	2 21	2 5175	2012	4yrs 8mths
	2003	4 28	2 705	2013	5yrs 8mths
	2004	6 96	3 4733	2014	6yrs 8mths
	2005	0 10	3 9658	2015	7yrs 1mth
	2005	0 04	4 3883	2015	7yrs 5mths
	2005	13 83	4 9942	2015	7yrs 8mths
	2006	0 04	6 26	2016	8yrs 1mth
	2006	13 42	6 8983	2016	8yrs 8mths
	2007	**12.74**	**7 92**	**2017**	**9yrs 8mths**

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

The table includes share options granted to three Directors who are not employed by the 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) WEIGHTED AVERAGE EXERCISE PRICE OF SHARE OPTIONS

	2007 Sharesave Scheme options £	2007 CSOS options £	2006 Sharesave Scheme options £	2006 CSOS options £
Outstanding as at 1 January	**3 59**	**4 47**	2 67	3 54
Granted	**7 16**	**7 92**	5 82	6 90
Exercised	**2 65**	**3 08**	2 28	2 64
Forfeited	**4 97**	**5 82**	3 69	4 12
Outstanding as at 31 December	**4 96**	**5 60**	3 59	4 47
Exercisable as at 31 December	**2 68**	**3 03**	2 31	2 63

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

H) SUMMARY OF MOVEMENTS IN SHARE OPTIONS

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

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

6 DISPOSALS, RE-MEASUREMENTS AND IMPAIRMENTS

The Group has separately identified profits and losses related to disposals, impairments and certain re-measurements of derivative instruments in the income statement as follows

	2007 £m	2006 £m
Other operating income		
Re-measurements of commodity contracts	**(172)**	404
Operating costs	**-**	(104)
Profit/(loss) on disposal of non-current assets	**19**	(49)
Finance income and costs		
Gains on re-measurements of financial instruments	**6**	23
Losses on re-measurements of financial instruments	**(4)**	(22)
Taxation	**115**	(113)
Profit/(loss) for the year	**(36)**	139
Profit/(loss) attributable to		
Shareholder (earnings)	**(37)**	–
Minority interests	**1**	139

OTHER OPERATING INCOME

Re-measurements included within Other operating income amount to a charge of £172m (2006 credit of £404m), £140m of this charge (2006 £366m of this credit) 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 Further information on commodity instruments is given in note 21, page 35

OPERATING COSTS

2006

In 2006, given the uncertainties surrounding the Brindisi LNG project, the Brindisi asset was subject to an impairment review The impairment review of the Brindisi regasification plant compared the value in use (using pre-tax discount rate of 8%) with the carrying value of this asset, resulting in an impairment charge of £104m to operating costs (post-tax £97m)

DISPOSAL OF NON-CURRENT ASSETS

2007

In December 2007, the Group disposed of its exploration licences in Italy This resulted in a gain on disposal of £1m No tax arose on the disposal

In June 2007, the Group sold its 25% equity interest in Interconnector (UK) Limited whilst retaining its throughput capacity contracts with this company This resulted in a pre- and post-tax gain on disposal of £157m As part of this transaction, the Group reviewed the retained capacity contracts in the Interconnector pipeline and concluded that the obligations associated with these contracts exceed the benefit expected to be received from the Interconnector interest Accordingly, a pre-tax provision of £156m (post-tax £124m) was made to reflect the present obligation under these contracts The overall transaction generated a pre-tax gain on disposal of £1m (post-tax £33m)

In April 2007, the Group disposed of selected Canadian assets This resulted in a gain on disposal of £18m No tax arose on the disposal
In January 2007, the Group disposed of its Mauritanian interests This resulted in a loss on disposal of £1m No tax arose on the disposal

2006

In 2006, the Group made disposals of interests in certain non-core businesses, resulting in a net pre-tax loss of £7m No tax arose on these disposals

In November 2006, the Group sold two LNG ships, which resulted in a £35m profit on disposal No tax arose on these disposals

In December 2006, the Group committed to a plan to dispose of its interests in its Mauritania Holdings B V and Microgen businesses and accordingly reclassified these businesses as held for sale As a result, they were revalued to fair value less disposal costs Fair value was based on estimated disposal proceeds This resulted in a pre-tax charge to the income statement of £77m (post-tax charge of £56m), including provision for impairment of £67m Mauritania Holdings B V was sold in January 2007 As at 31 December 2007, the closure of Microgen was complete

FINANCE INCOME AND COSTS

Re-measurements presented in finance income and costs relate primarily to certain derivatives used to hedge foreign exchange and interest rate risk, partly offset by foreign exchange movements on certain borrowings in subsidiaries

7 FINANCE INCOME AND COSTS

	2007 £m	2006 £m
Interest receivable[a]	**150**	76
Net fair value gains and losses on interest rate and currency exchange rate derivatives	**–**	7
Fair value hedge adjustments	**–**	16
Other interest income[b]	**2**	28
Finance income	**152**	127
Interest payable [a]		
On loans wholly repayable within five years	**(102)**	(37)
On loans any part repayable after five years	**(8)**	(46)
Finance lease	**(56)**	(55)
Other interest charges	**(2)**	(3)
Less interest capitalised[c]	**37**	54
Unwinding of discount on provisions and pension obligations[d]	**(24)**	(15)
Net fair value gains and losses on interest rate and currency exchange rate derivatives	**(1)**	–
Fair value hedge adjustments	**(3)**	–
Finance costs	**(159)**	(102)
Net finance income/(costs)[e]	**(7)**	25

(a) Interest receivable includes net exchange gains of £22m (2006 £35m loss) Interest payable includes net exchange losses of £nil (2006 £22m) Net exchange differences include the retranslation of certain borrowings in subsidiaries Certain exposures relating to these borrowings are hedged using interest rate and currency derivative instruments the net fair value gains and losses on such derivatives are reported separately

(b) Other interest income comprises interest receivable in relation to tax settlements

(c) Finance costs associated with general Group central borrowings used to finance major capital projects are capitalised up to the point that the project is ready for its intended use The weighted average interest cost applicable to these borrowings is 6 7% per annum (2006 6 5%) Tax relief for capitalised interest is approximately £11m (2006 £16m)

(d) Amount in respect of pension obligation represents the unwinding of discount on the plans liabilities offset by the expected return on the plans assets (see note 29 page 46) Also includes the unwinding discount on decommissioning and other provisions (see note 23 page 41)

(e) Excludes the Group's share of net finance costs from joint ventures and associates of £53m (2006 £67m)

8 TAXATION

	2007 £m	2006 £m
Current tax		
UK – corporation tax at 30% and 50% (2006 30% and 50%)	**938**	765
– petroleum revenue tax at 50% (2006 50%)	**26**	23
– adjustments in respect of prior periods	**(27)**	51
– less double tax relief	**(433)**	(428)
UK tax charge	**504**	411
Overseas tax charge	**604**	599
– adjustments in respect of prior periods	**14**	8
Current tax charge	**1 122**	1 018
Deferred tax		
Temporary differences	**122**	468
Effect of changes in tax rates	**(6)**	(23)
Deferred petroleum revenue tax at 50% (2006 50%)	**(5)**	4
Tax charge	**1 233**	1 467

The tax credit relating to disposals, re-measurements and impairments is £115m (2006 tax charge £113m) This consists of a tax credit on unrealised re-measurements of £83m (2006 tax charge £141m) and a tax credit on disposals and impairments of £32m (2006 tax credit £28m)

8 TAXATION continued

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

	2007 £m	2006 £m
Profit before taxation	**3 015**	3 297
Tax at UK statutory rates on profit	**1 039**	1 154
Effect on tax charge of		
Non tax-deductible or non-taxable items	**(8)**	77
Overseas or petroleum revenue taxes at different rates to statutory rates	**197**	233
Effect of changes in tax rates	**(6)**	(23)
Prior year and other adjustments including unrelieved overseas tax losses	**11**	26
Tax charge	**1 233**	1 467

9 DIVIDENDS

No final dividend has been proposed by the Directors for 2007 (2006 £nil) An interim dividend of £677m was paid on 26 November 2007 (2006 £1 047m)

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

	2007 £m	2006 £m
Cost and net book value as at 1 January	**328**	342
Currency translation adjustments	**57**	(14)
Cost and net book value as at 31 December	**385**	328

As at 31 December 2007, the majority of the goodwill recognised related to Comgas, which is classified within the Transmission and Distribution (T&D) segment and 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 in the business plan used to determine cash flows beyond the five year period are between 5% and 9% and do not exceed the average long-term growth rate for the relevant markets

The projected cash flows were discounted using a nominal 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

12 OTHER INTANGIBLE ASSETS

	Expenditure on unproved gas and oil reserves		Other (a)		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Cost as at 1 January	**648**	532	**56**	156	**704**	688
Additions	**304**	396	**–**	17	**304**	413
Business combinations (see note 15, page 31)	**–**	–	**13**	–	**13**	–
Disposals and unsuccessful exploration expenditure[b]	**(192)**	(113)	**–**	–	**(192)**	(113)
Transfer to property, plant and equipment	**(13)**	(41)	**–**	(111)	**(13)**	(152)
Reclassified as assets held for sale	**–**	(69)	**–**	–	**–**	(69)
Currency translation adjustments	**22**	(57)	**(1)**	(6)	**21**	(63)
Cost as at 31 December	**769**	648	**68**	56	**837**	704
Amortisation as at 1 January	**–**	–	**(10)**	(6)	**(10)**	(6)
Charge for the year	**–**	–	**(4)**	(4)	**(4)**	(4)
Provision for impairment	**–**	(30)	**–**	–	**–**	(30)
Reclassified as assets held for sale	**–**	30	**–**	–	**–**	30
Amortisation as at 31 December	**–**	–	**(14)**	(10)	**(14)**	(10)
Net book value as at 31 December	**769**	648	**54**	46	**823**	694

(a) As at 31 December 2007 Other represents the contractual rights in respect of power sales and the purchase of LNG regasification services and related gas sales at Elba Island in the USA The estimated aggregate amortisation expense from 2008 to 2012 is £6m per annum The average remaining life of other intangibles is 11 years and 5 months (2006 14 years and 3 months)

(b) Disposals and unsuccessful exploration expenditure includes £104m (2006 £113m) in respect of unsuccessful exploration expenditure written off

13 PROPERTY, PLANT AND EQUIPMENT

	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 2007	68	469	1 580	327	7 614	10 058
Additions	2	79	125	106	1 242	1 554
Business combinations (see note 15, page 31)	25	–	512	1	–	538
Disposals and transfers[a][b]	(4)	–	(4)	(6)	(53)	(67)
Currency translation adjustments	3	96	17	4	(23)	97
Cost as at 31 December 2007	**94**	**644**	**2 230**	**432**	**8 780**	**12 180**
Accumulated depreciation as at 1 January 2007	(37)	(42)	(403)	(161)	(3 455)	(4 098)
Provision for the year	(1)	(19)	(93)	(41)	(523)	(677)
Disposals and transfers[a]	1	–	6	7	35	49
Currency translation adjustments	(1)	(23)	(10)	(1)	7	(28)
Accumulated depreciation as at 31 December 2007	**(38)**	**(84)**	**(500)**	**(196)**	**(3 936)**	**(4 754)**
Net book value as at 31 December 2007[c][d][e]	**56**	**560**	**1 730[f]**	**236**	**4 844**	**7 426**

	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 2006	56	390	1 245	280	7 346	9 317
Additions	8	78	424	58	721	1 289
Business combinations	5	–	39	–	–	44
Disposals and transfers[a][b]	–	23	10	(3)	74	104
Currency translation adjustments	(1)	(22)	(126)	(8)	(482)	(639)
Reclassified as assets held for sale	–	–	(12)	–	(45)	(57)
Cost as at 31 December 2006	**68**	**469**	**1 580**	**327**	**7 614**	**10 058**
Accumulated depreciation as at 1 January 2006	(37)	(27)	(276)	(131)	(3 016)	(3 487)
Provision for the year	–	(14)	(61)	(32)	(497)	(604)
Provision for impairment	–	–	(104)	(3)	(34)	(141)
Disposals and transfers[a]	–	(6)	27	1	–	22
Currency translation adjustments	–	5	10	4	81	100
Reclassified as assets held for sale	–	–	1	–	11	12
Accumulated depreciation as at 31 December 2006	**(37)**	**(42)**	**(403)**	**(161)**	**(3 455)**	**(4 098)**
Net book value as at 31 December 2006[c][d][e]	**31**	**427**	**1 177[f]**	**166**	**4 159**	**5 960**

(a) In 2007 disposals primarily relate to the sale of selected Canadian assets (see note 6 page 25) In 2006 disposals primarily relate to the disposals of two LNG ships

(b) Includes within exploration and production a transfer from other intangible assets of £13m (2006 £41m) and within plant and machinery a transfer from other intangible assets of £nil (2006 £111m)

(c) The Group's net book value includes capitalised interest of £188m (2006 £163m) comprising exploration and production £123m (2006 £112m) and plant and machinery £65m (2006 £51m) A deferred tax liability is recognised in respect of this taxable temporary difference at current enacted rates

(d) Includes the net book value of decommissioning assets of £184m (2006 £105m) and expenditure on plant and machinery and exploration and production assets under construction of £1 167m (2006 £859m)

(e) Assets capitalised and held under finance leases included in plant and machinery are

	2007 £m	2006 £m
Cost	1 033	969
Accumulated depreciation	(114)	(80)
Net book value	919	889

(f) Includes assets held under operating leases where the Group is the lessor

	2007 £m	2006 £m
Cost	187	186
Accumulated depreciation	(72)	(55)
Net book value	115	131

The depreciation charge for the year relating to these assets was £17m (2006 £17m)

14 INVESTMENTS

Investments represent long-term investments

	Joint ventures		Associates			
	Share of net assets £m	Loans £m	Share of net assets £m	Loans £m	Other Investments £m	Total Investments £m
Carrying value as at 31 December 2006	240	184	254	407	1	1 086
Investments	13	36	6	77	–	132
Disposals, transfers and other loan movements[(a)]	–	(11)	(35)	(30)	–	(76)
Share of retained profits less losses during the year[(b)]	8	–	12	–	–	20
Currency translation adjustments	1	–	(1)	(5)	–	(5)
Carrying value as at 31 December 2007	**262**	**209**	**236**	**449**	**1**	**1 157**

(a) Included within associates is £35m relating to Serene S p .A which became a subsidiary on 14 February 2007
(b) Comprises share of post tax results for the year of £163m offset by share of dividends receivable by the Group of £143m

The Group's share of profits in MetroGAS and GASA for the year ended 31 December 2007 was £2m The Group s share of net assets at the end of the year remained negative therefore the investment in these companies is held at nil carrying value

Analysis of the Group's share of assets, liabilities, income and expenses in joint ventures and associates is shown below

		Joint ventures		Associates	
As at 31 December		**2007 £m**	2006 £m	**2007 £m**	2006 £m
Share of assets	– non-current assets	**612**	532	**994**	1 112
	– current assets	**143**	160	**225**	286
		755	692	**1 219**	1 398
Share of liabilities	– current liabilities	**(121)**	(198)	**(215)**	(239)
	– non-current liabilities	**(372)**	(254)	**(768)**	(905)
		(493)	(452)	**(983)**	(1 144)
Share of net assets		**262**	240	**236**	254
Share of revenue		**310**	304	**687**	843
Share of operating costs		**(221)**	(218)	**(529)**	(696)
Share of operating profit		**89**	86	**158**	147
Share of finance costs		**(14)**	(19)	**(39)**	(48)
Share of tax		**(18)**	(10)	**(13)**	(17)
Share of post-tax results		**57**	57	**106**	82

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

15 BUSINESS COMBINATIONS

On 13 March 2007, in accordance with the Group's US integrated gas strategy, the Group acquired the Lake Road power plant for cash Details of the net assets acquired are as follows

		Book value at acquisition £m	Fair value adjustments £m	Fair value at acquisition £m
Assets				
Non-current	Property, plant and equipment	105	236	341
	Other non-current assets	–	10	10
Current	Inventories	3	–	3
	Trade and other receivables	3	–	3
Liabilities				
Current	Trade and other payables	(3)	–	(3)
	Commodity contracts	(2)	–	(2)
Net assets		**106**	**246**	**352**
Cash consideration				**352**

The adjustments relate primarily to, but not limited to, the revaluation of property, plant and equipment

The cash consideration of £352m included £1m of costs directly attributable to the combination

The Group's results for the year include operating profit of £11m and profit after tax of £7m in respect of the Lake Road power plant Had the acquisition date for this combination been at the beginning of the year, it is estimated that the Group's consolidated revenue, operating profit and profit after tax would not have been materially different

In addition, the Group acquired the remaining equity (66 3%) of Serene S p A (now BG Italia Power S p A) on 14 February 2007 and the Masspower power plant on 1 May 2007, both for cash consideration Details of the net assets acquired are as follows

		Book value at acquisition £m	Fair value adjustments £m	Fair value at acquisition £m
Assets				
Non-current	Intangible assets	4	9	13
	Property, plant and equipment	119	78	197
	Other non-current assets	–	11	11
Current	Inventories	4	–	4
	Trade and other receivables	53	–	53
	Cash and cash equivalents	27	–	27
Liabilities				
Current	Trade and other payables	(27)	–	(27)
	Borrowings	(11)	–	(11)
Non-current	Borrowings	(29)	–	(29)
	Deferred tax	(18)	(24)	(42)
	Other non-current liabilities	(1)	(5)	(6)
Net assets		**121**	**69**	**190**
Satisfied by				
Carrying value of equity method investment				35
Cash				155
				190

The adjustments relate primarily to, but not limited to, the revaluation of property, plant and equipment

Included in the above are £87m of non-current assets attributable to the Masspower acquisition, the fair value of which is considered provisional as at 31 December 2007, pending finalisation of the fair value exercise It is anticipated that finalisation of the initial accounting will not result in material adjustments to the net assets acquired

The cash consideration of £155m included £1m of costs directly attributable to the combinations

The Group's results for the year include operating profit of £15m and profit after tax of £12m for the combined entities If the combined entities had been acquired at the beginning of the year, it is estimated that the Group's consolidated revenue, operating profit and profit after tax would not have been materially different

Notes to the accounts continued

16 INVENTORIES

	2007 £m	2006 £m
Raw materials and consumables	**174**	135
Finished goods for resale	**208**	112
	382	247

17 TRADE AND OTHER RECEIVABLES

	2007 £m	2006 £m
Amounts falling due within one year		
Trade receivables	**759**	762
Amounts owed by joint ventures and associates (see note 28, page 45)	**46**	38
Other receivables	**205**	114
Prepayments and accrued income	**1 251**	940
	2 261	1 854
Amounts falling due after more than one year		
Other receivables	**49**	49
Prepayments and accrued income	**21**	-
	70	49
Total receivables	**2 331**	1 903

Trade receivables are stated net of provisions When management consider the recovery of a receivable to be improbable, a provision is made in full against the carrying value of the receivable The movement in this provision is as follows

	2007 £m	2006 £m
Provision as at 1 January	**13**	15
Charge/(credit) for the year	**3**	–
Transfers and other adjustments	**1**	(2)
Provision as at 31 December	**17**	13

As at 31 December 2007, £90m (2006 £90m) of trade and other receivables were past due but not provided for, and an analysis of these receivables is as follows

	2007 £m	2006 £m
Less than 3 months past due	**59**	63
Between 3 and 6 months past due	**5**	2
Between 6 and 12 months past due	**2**	–
More than 12 months past due	**24**	25
	90	90

18 CASH AND CASH EQUIVALENTS

	2007 £m	2006 £m
Cash at bank and in hand	**200**	111
Cash equivalent investments	**1 679**	1 351
	1 879	1 462

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 into known amounts of cash

The effective interest rates of the Group's cash equivalent investments as at 31 December 2007 were between 2 9% and 7 8% (2006 3 6% and 7 1%) For further information on the interest rate composition of the Group's financial assets see note 21, page 35

19 ASSETS HELD FOR SALE

	2007 £m	2006 £m
Other intangible assets	–	39
Property, plant and equipment	–	45
Trade and other receivables	–	1
Assets classified as held for sale	–	85
Borrowings	–	(11)
Trade and other payables	–	(7)
Provision for other liabilities and charges	–	(16)
Liabilities associated with assets classified as held for sale	–	(34)
Net assets classified as held for sale	–	51

As at 31 December 2007, the Group did not have any assets held for sale

In 2006, assets held for sale represented the Group's interest in Mauritania Holdings B V and the Microgen business The sale of Mauritania Holdings B V was completed in January 2007 and was included within the E&P segment During 2007, the Group took the decision to close the Microgen business and as at 31 December 2007 the business was closed Microgen was included within the Other activities segment Further details are shown in note 6, page 25

20 BORROWINGS

Details of the Group's financing and financial risk factors are disclosed on page 8

	2007 £m	2006 £m
Amounts falling due within one year		
Other loans – commercial paper	**16**	20
– bonds	**198**	44
Bank loans and overdrafts	**50**	29
Obligations under finance leases	**11**	10
	275	103
Amounts falling due after more than one year		
Other loans – bonds	**283**	477
Bank loans and overdrafts	**390**	200
Obligations under finance leases	**995**	882
	1 668	1 559
Gross borrowings	**1 943**	1 662

As at 31 December 2007, Comgas had pledged trade receivables of £14m (2006 £10m) as security against certain of its borrowings In the event of default under the loan agreements, the lender has the right to receive cash flows from the receivables pledged Without default the entity will continue to collect the receivables and allocate new receivables as collateral Details of guarantees in relation to borrowings are set out in note 27, page 43

MATURITY AND INTEREST RATE 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)	Fixed Rate Borrowings		Total Gross Borrowings	
Amounts due	2007 £m	2006 £m	2007 £m	2006 £m
Within one year	**12**	14	**275**	103
Between one and two years	**10**	14	**132**	241
Between two and three years	**11**	12	**73**	95
Between three and four years	**12**	13	**66**	44
Between four and five years	**11**	14	**308**	44
After five years	**289**	308	**1 089**	1 135
	345	375	**1 943**	1 662

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

As part of its interest rate risk strategy the Group 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 35

The effective post-swap interest rates as at 31 December 2007 were between 5% and 13% (2006 3% and 19%) For amounts falling due within one year the effective post-swap interest rates were between 5% and 8% (2006 3% and 19%) Fixed rate borrowings that are not in fair value hedge relationships mature between 2008 and 2028 (2006 matured between 2008 and 2028) and the interest rates are not subject to re-pricing prior to maturity

20 BORROWINGS continued

Obligations under finance leases

Amounts due	Minimum lease payments 2007 £m	2006 £m	Obligations under finance leases 2007 £m	2006 £m
Within one year	**72**	62	**11**	10
Between one and five years	**274**	238	**49**	40
After five years	**1 648**	1 481	**946**	842
Less future finance charges	**(988)**	(889)	**–**	–
	1 006	892	**1 006**	892

The Group has finance lease obligations in respect of a number of LNG ships These lease obligations expire between 2024 and 2037 (2006 expired between 2024 and 2037) In addition the Group has recognised a finance lease in respect of its regasification contract at Lake Charles This lease obligation expires in 2028

CURRENCY COMPOSITION OF THE GROUP'S BORROWINGS
The following table analyses the currency composition of the Group's gross borrowings

	2007 £m	2006 £m
Currency		
Sterling	**716**	715
US Dollars	**872**	691
Brazilian Reals	**288**	179
Other	**67**	77
	1 943	1 662

The disclosure above does not include the impact of certain currency derivatives as these are separately recognised under IAS 39 and presented in note 21, page 35 As at 31 December 2007, the Group had swapped £706m (2006 £707m) of pound Sterling borrowings into US Dollars, £33m (2006 £49m) of US Dollar borrowings into Brazilian Reals and £35m (2006 £77m) of other currencies into US Dollars

COMPOSITION OF THE GROUP'S UNDRAWN COMMITTED BORROWINGS
The Group has undrawn committed borrowing facilities in respect of which all conditions have been met, as follows

	2007 £m	2006 £m
Expiring		
Within one year	**65**	299
Between one and two years	**46**	18
Between two and three years	**–**	429
Between three and four years	**–**	–
Between four and five years	**522**	–
	633	746

21 FINANCIAL INSTRUMENTS

TREASURY INSTRUMENTS
The Group is exposed to credit risk, interest rate risk, exchange rate risk and liquidity risk 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 and forward rate agreements to manage the composition of floating and fixed rate debt The Group enters into forward currency contracts 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 and exchange rate derivatives for speculative purposes

Further information on financing and financial risk factors can be found on page 8

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.

21 FINANCIAL INSTRUMENTS continued

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

Further information on commodity price exposure can be found on page 7

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 fair value of commodity contracts and commodity related derivatives is based on forward price curves, where available Where observable market valuations are unavailable, the fair value on initial recognition is the transaction price and is subsequently determined using quotes from third-parties or 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 UK gas contracts is that the gas market in the UK is liquid for two years As at 31 December 2007, the average two year forward price for UK gas was 51p per therm (2006 36p per therm) Beyond this period a seasonally adjusted UK gas price of 45p per therm (2006 31p per therm) has been used along with an electricity price of £45 per megawatt hour (2006 £28 per megawatt hour) The fair values of the long-term commodity contracts are then discounted using the market yield curve at the balance sheet date Using these assumptions, the change in fair value of long-term UK gas contracts charged to the income statement in the year is £140m (2006 £366m credit) As at 31 December 2007, the potential change in the fair value of long-term commodity contracts, assuming a 10% change in the price assumptions, was £27m (2006 £30m)

AMOUNTS RECOGNISED IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

	2007		2006	
Included on the balance sheet	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate derivatives	**7**	**(3)**	5	(5)
Currency exchange rate derivatives	**37**	**(70)**	10	(21)
Cross-currency interest rate derivatives	**132**	**(16)**	135	(28)
Long-term UK gas contracts	**–**	**(373)**	–	(233)
Other commodity derivatives	**691**	**(708)**	698	(544)
	867	**(1 170)**	848	(831)

As at 31 December 2007, margin payments of £44m (2006 £22m) were deposited with the Group's brokers in respect of commodity derivatives traded on regulated exchanges

Derivative financial instruments are treated as expiring within one year and 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 derivative is expected to expire Included within derivatives classified as expiring within one year are the long-term UK gas contracts which expire between 2009 and 2014 (2006 between 2007 and 2014), other commodity derivatives which expire between 2008 and 2017 (2006 between 2007 and 2012), and certain currency and cross-currency interest rate derivatives that are not part of a formal hedging relationship which expire between 2008 and 2036 (2006 between 2007 and 2036)

	2007		2006	
Expiring	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Within one year	**489**	**(804)**	575	(741)
Between one and five years	**378**	**(366)**	226	(85)
After five years	**–**	**–**	47	(5)
	867	**(1 170)**	848	(831)

21 FINANCIAL INSTRUMENTS continued

The notional principal amounts of derivative financial instruments are as follows

Expiring	2007 Within one year £m	2007 Between one and five years £m	2007 After five years £m	2007 Total £m	2006 Within one year £m	2006 Between one and five years £m	2006 After five years £m	2006 Total £m
Interest rate derivatives	**150**	**250**	**–**	**400**	–	150	255	405
Currency exchange rate derivatives	**262**	**2 811**	**–**	**3 073**	54	1 020	–	1 074
Cross-currency interest rate derivatives	**218**	**359**	**175**	**752**	116	313	436	865
Other commodity derivatives	**12 038**	**9 072**	**163**	**21 273**	4 554	3 574	2	8 130

The notional principal amounts of long-term UK gas contracts are £645m (2006 £467m) The amounts in respect of other commodity derivatives represent the gross combination of notional principals relating to all purchase and sale contracts 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	2007 £m	2006 £m
Interest rate and exchange rate derivatives not in a designated hedge relationship	**(17)**	19
Interest rate derivatives designated as fair value hedges	**4**	(14)
Cross-currency interest rate derivatives designated as fair value hedges	**2**	(3)
Ineffectiveness on net investment hedges	**1**	5
Long-term UK gas contracts (see note 3, page 18)	**(140)**	366
Other commodity derivatives not in a designated hedge relationship[a]	**(42)**	90
	(192)	463

(a) Includes £19m charge (2006 £52m credit) recognised as Other operating income within Business Performance

HEDGE ACCOUNTING

In line with the Group's risk management policies, certain derivative and non-derivative instruments are designated as hedges of currency, interest rate and commodity price exposures in accordance with IAS 39 Further information can be found on page 7

Fair Value Hedges

As at 31 December 2007, the Group held a number of interest rate swaps and cross-currency 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 related 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 2007 is £8m (2006 £3m) During 2007, adjustments of £(3)m (2006 £16m) have been made to borrowings in respect of highly effective fair value hedges

Cash Flow Hedges

The Group has forward commodity contracts and currency exchange rate derivatives designated as hedges of highly probable forecast purchases and sales The cash flow hedges were assessed as highly effective and an unrealised pre-tax loss of £54m (2006 £73m gain) was deferred in equity as at 31 December 2007 The hedged transactions are expected to occur within four years (2006 five years) 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 As at 31 December 2007, deferred pre-tax losses of £15m (2006 £1m gain) are expected to be released to the income statement within one year The fair value of derivative instruments designated as cash flow hedges outstanding as at 31 December 2007 is £(53)m (2006 £75m)

Note 26, page 43 identifies the amounts that have been transferred from equity to the income statement in respect of transactions completed during the year These items are reported within the income statement to match against the underlying transaction

Hedges of net investments in foreign operations

As at 31 December 2007, certain currency derivatives have been designated as hedges of net investments in the Group's foreign operations, and are used to hedge the Group's exposure to foreign exchange risk on these investments Fair value movements in the designated currency 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 derivatives deferred within equity as at 31 December 2007 is £9m (2006 £15m) The fair value of derivative instruments designated as hedges of net investments in foreign operations outstanding as at 31 December 2007 is £113m (2006 £117m)

21 FINANCIAL INSTRUMENTS continued

FINANCIAL ASSETS (EXCLUDING SHORT-TERM DEBTORS)

The Group's financial assets consist of cash and cash equivalents of £1 879m (2006 £1 462m), loans made to joint ventures and associates of £658m (2006 £591m), other long-term investments of £1m (2006 £1m) and debtors due after more than one year of £49m (2006 £49m)

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

	2007				2006			
	Fixed rate financial assets £m	Floating rate financial assets £m	Non-interest bearing assets £m	Total £m	Fixed rate financial assets £m	Floating rate financial assets £m	Non interest bearing assets £m	Total £m
Currency								
Sterling	84	1 333	124	**1 541**	95	1 105	88	1 288
US Dollars	41	683	65	**789**	44	638	83	765
Other	–	248	9	**257**	–	33	17	50
	125	2 264	198	**2 587**	139	1 776	188	2 103

The effective interest rates on the loans to joint ventures and associates as at 31 December 2007 were between 0% and 9 95% (2006 0% and 9 95%) Within floating rate financial assets, cash and cash equivalents earn interest at the relevant market rates or, where invested in money market liquidity funds, as determined by the investment returns of the relevant fund In each case, investment performance is measured against the London Interbank Offered Rate (LIBOR) for the relevant currency and maturity Periodic interest rate determinations in respect of other floating rate financial assets generally comprise LIBOR plus or minus an agreed margin As at 31 December 2007, £84m (2006 £95m) of fixed rate loans to joint ventures and associates expire in 2016 (2006 expire in 2016) and have effective interest rates of between 7 25% and 9 95% (2006 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 As at 31 December 2007, £41m (2006 £44m) of fixed rate debtors due after more than one year expire between 2011 and 2015 (2006 expire between 2011 and 2015) and have effective interest rates of 6% (2006 between 10 95% and 12 66%)

FAIR VALUES OF FINANCIAL INSTRUMENTS

	2007		2006	
	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	**(275)**	**(275)**	(103)	(103)
Long-term borrowings	**(1 668)**	**(1 726)**	(1 559)	(1 604)
Cash and cash equivalents	**1 879**	**1 879**	1 462	1 462
Short-term debtors	**1 010**	**1 010**	876	876
Short-term creditors	**(698)**	**(698)**	(717)	(717)
Amounts owed to parent undertaking	**(852)**	**(852)**	(895)	(895)
Other financial liabilities	**(20)**	**(20)**	(15)	(15)
Other financial assets	**708**	**721**	641	656

The fair value of cash and cash equivalents (current asset investments and cash at bank and in hand), short-term debtors, short-term creditors and amounts owed to parent undertaking 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 by discounting all future cash flows by the market yield curve at the balance sheet date 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

FINANCIAL RISK FACTORS

The principal financial risks arising from financial instruments are commodity price risk, exchange rate risk, interest rate risk, liquidity risk and credit risk A description of these principal risks and the actions taken by management to mitigate some of the exposure is outlined on page 8 Additional quantitative information and market sensitivities in relation to certain principal market risks are included in the section below

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 The Group proposes to meet its financial commitments from both the operating cash flows of the business and from use of the money and capital markets, including existing committed lines of credit

21 FINANCIAL INSTRUMENTS continued

The undiscounted contractual cash flows receivable/(payable) under financial instruments as at the balance sheet date are as follows

As at 31 December 2007	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Non-derivative financial liabilities					
Borrowings	(406)	(236)	(732)	(1 809)	(3 183)
Short-term creditors and amounts owed to parent undertaking	(1 550)	–	–	–	(1 550)
Other financial liabilities	–	–	–	(20)	(20)
	(1 956)	(236)	(732)	(1 829)	(4 753)
Derivative financial liabilities					
Interest rate derivatives	(1)	–	(1)	–	(2)
Currency exchange and cross-currency interest rate derivatives	(417)	(1 512)	(1 696)	(430)	(4 055)
Gross settled commodity derivatives	(1 106)	(273)	(175)	–	(1 554)
Net settled commodity derivatives	(64)	(39)	(24)	–	(127)
	(1 588)	(1 824)	(1 896)	(430)	(5 738)
Non-derivative and derivative financial assets	5 710	2 714	3 000	1 317	12 741
Total as at 31 December 2007	**2 166**	**654**	**372**	**(942)**	**2 250**

As at 31 December 2006	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Total £m
Non-derivative financial liabilities					
Borrowings	(209)	(339)	(423)	(1 807)	(2 778)
Short-term creditors and amounts owed to parent undertaking	(1 650)	–	–	–	(1 650)
Other financial liabilities	–	–	–	(15)	(15)
	(1 859)	(339)	(423)	(1 822)	(4 443)
Derivative financial liabilities					
Interest rate derivatives	(1)	(1)	(2)	–	(4)
Currency exchange and cross-currency interest rate derivatives	(182)	(204)	(1 232)	(671)	(2 289)
Gross settled commodity derivatives	(741)	(200)	(100)	(1)	(1 042)
Net settled commodity derivatives	(11)	(13)	(32)	–	(56)
	(935)	(418)	(1 366)	(672)	(3 391)
Non-derivative and derivative financial assets	4 060	895	2 424	1 440	8 819
Total as at 31 December 2006	**1 266**	**138**	**635**	**(1 054)**	**985**

Credit risk

Credit risk is managed on a Group basis Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale customers including outstanding receivables and committed transactions For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are normally accepted Limits are established for banks and financial institutions and Group management monitors exposures periodically If wholesale customers are independently rated, these ratings are used Otherwise, if there is no independent rating, business credit policies dictate the credit quality assessment which takes account of financial position and other factors Limits are established for wholesale trading businesses and business and Group management monitors overall exposures periodically

As at 31 December 2007, the Group's maximum credit risk exposure (after the impact of any netting arrangements) under interest rate related derivatives was £7m (2006 £5m), currency derivatives £127m (2006 £122m) and commodity related derivatives £307m (2006 £387m) The Group's credit risk exposure under short-term debtors and other financial assets is represented by the book values The Group has no significant concentration of credit risk, with exposures spread over a large number of counterparties and customers

21 FINANCIAL INSTRUMENTS continued

FINANCIAL RISK FACTORS continued

Sensitivity analysis

Financial instruments used by the Group that are affected by market risks primarily comprise cash and cash equivalents, borrowings and derivative contracts The principal market variables that affect the value of these financial instruments are UK and US interest rates, US Dollar to pound Sterling exchange rates, UK and US gas prices and Japan Crude Cocktail (JCC) prices The table below illustrates the indicative post-tax effects on the income statement and equity of applying reasonably foreseeable market movements to the Group's financial instruments at the balance sheet date

		2007			2006		
		Business Performance £m	Disposals, re-measurements and impairments £m	Equity £m	Business Performance £m	Disposals re-measurements and impairments £m	Equity £m
UK interest rates	+ 100 basis points	**4**	**(5)**	**8**	8	(4)	8
US interest rates	+ 100 basis points	**(4)**	**1**	**(8)**	(3)	2	(8)
US$/UK£ exchange rate	+ 20 cents	**(12)**	**(4)**	**(16)**	(15)	(3)	(4)
UK gas prices	+ 10 pence/therm	**–**	**(45)**	**(89)**	(3)	(53)	(62)
US gas prices	+ 1 US$/mmbtu	**10**	**–**	**51**	5	–	11
JCC prices	+ 10 US$/bbl	**–**	**–**	**(25)**	–	–	–

(b) The above sensitivity analysis is based on the Group s financial assets liabilities and hedge designations as at the balance sheet date and indicate the effect of a reasonable increase in each market variable The effect of a corresponding decrease in these variables is approximately equal and opposite The following assumptions have been made

(a) the sensitivity includes a full years change in interest payable and receivable from floating rate borrowings and investments based on the post-swap amounts and composition as at the balance sheet date

(b) fair value changes coming from derivative instruments designated as cash flow or net investment hedges are considered fully effective and are recorded in equity

(c) fair value changes coming from derivative instruments designated as fair value hedges are considered fully effective and entirely offset by adjustments to the underlying hedged item

(d) fair value changes coming from derivatives not in a hedge relationship are recorded in the income statement

(e) fair value changes coming from certain long term UK gas contracts arise entirely from sensitivity to the two year forward price for UK gas the long term gas price assumptions used in the valuation of such contracts are unaffected by reasonably foreseeable movements in UK gas prices

22 TRADE AND OTHER PAYABLES

	2007 £m	2006 £m
Amounts falling due within one year		
Trade payables	**485**	600
Amounts owed to parent undertaking	**852**	895
Amounts owed to joint ventures and associates (see note 28, page 45)	**46**	38
Other payables[(a)]	**167**	117
Accruals and deferred income	**1 345**	852
	2 895	2 502
Amounts falling due after more than one year		
Other payables	**20**	15
Accruals and deferred income	**10**	6
	30	21
Total payables	**2 925**	2 523

(a) Includes £36m (2006 £19m) relating to cash settled share based payment transactions of which £17m (2006 £10m) relates to awards that have already vested, and £44m (2006 £39m) for bonuses provided for payments to eligible employees in 2007 under bonus schemes including the BG Group Annual Incentive Scheme (AIS)

23 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Decommissioning		Other		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
As at 1 January	**311**	260	**76**	112	**387**	372
Charge for the year	**–**	–	**183**	17	**183**	17
Unwinding of discount	**16**	13	**7**	–	**23**	13
Additions	**94**	49	**3**	–	**97**	49
Business combinations	**5**	–	**1**	–	**6**	–
Transfers and other adjustments	**4**	(10)	**(2)**	(14)	**2**	(24)
Amounts used	**(1)**	–	**(29)**	(25)	**(30)**	(25)
Unused provisions credited to the income statement	**–**	(1)	**(6)**	(14)	**(6)**	(15)
As at 31 December	**429**	311	**233**	76	**662**	387

Provisions falling due within one year amount to £29m (2006 £5m)

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 at least annually and engineering estimates and reports are updated periodically Provision is made for the estimated cost of decommissioning at the balance sheet date, to the extent current circumstances indicate the Group will ultimately bear this cost The payment dates of total expected future decommissioning costs are uncertain but are currently anticipated to be between 2010 and 2047

OTHER

The balance as at 31 December 2007 includes restructuring costs arising from the renegotiation of power purchase agreements at Premier Power Limited of £12m (2006 £11m), field-related payments of £3m (2006 £4m), insurance costs of £14m (2006 £12m), provisions for onerous contracts £154m (2006 £nil), costs associated with acquisitions and disposals of £19m (2006 £15m) and provisions for financial guarantee contracts £1m (2006 £4m) The payment dates are uncertain but are expected to be between 2008 and 2018

A provision for onerous contracts was recognised during the year in respect of capacity contracts in the Interconnector pipeline, retained following disposal of the Group's 25% equity interest in Interconnector (UK) Limited The obligation associated with these contracts extends to 2018

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

	2007 £m	2006 £m
As at 1 January	**1 072**	642
Business combinations	**42**	–
Charge for the year	**111**	449
(Credit)/charge on fair value movements on hedges taken to equity	**(36)**	55
Credit to equity in respect of share-based payments	**(19)**	(12)
Currency translation adjustments and other movements	**9**	(62)
As at 31 December	**1 179**	1 072

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
Deferred tax assets								
As at 31 December 2006	–	–	–	(43)	–	–	(31)	(74)
Charge/(credit) for the year	–	–	–	5	–	–	–	5
Charge/(credit) to equity	–	–	–	–	–	–	(19)	(19)
Currency translation adjustments and other movements	–	–	–	–	–	–	9	9
As at 31 December 2007	**–**	**–**	**–**	**(38)**	**–**	**–**	**(41)**	**(79)**
Deferred tax liabilities								
As at 31 December 2006	1 176	69	(116)	–	(6)	16	7	1 146
Business combinations	44	–	(2)	–	–	–	–	42
Charge/(credit) for the year	267	(5)	(34)	–	(25)	(13)	(84)	106
Charge/(credit) to equity	–	–	–	–	–	–	(36)	(36)
Currency translation adjustments and other movements	(3)	–	–	–	–	–	3	–
As at 31 December 2007	**1 484**	**64**	**(152)**	**–**	**(31)**	**3**	**(110)**	**1 258**
Net deferred tax liability as at 31 December 2007	**1 484**	**64**	**(152)**	**(38)**	**(31)**	**3**	**(151)**	**1 179**
Net deferred tax liability as at 31 December 2006	1 176	69	(116)	(43)	(6)	16	(24)	1 072

The deferred tax asset of £79m (2006 £74m) is expected to be recovered after more than 12 months The deferred tax liability of £1 258m (2006 £1 146m) is shown after the offset of certain deferred tax assets relating to the same fiscal authority, the liability prior to such offset is £1 724m (2006 £1 424m) The net amount expected to be settled after more than 12 months is £1 258m (2006 £1 134m)

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, joint ventures and associates for which deferred tax liabilities have not been recognised is £1 960m (2006 £1 395m) 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 £78m (2006 £219m) and unrecognised tax losses of £389m (2006 £210m) to carry forward against future taxable income To the extent unutilised, £98m of these losses will expire between 2008 and 2012 In addition, the Group has unrecognised capital losses of £252m (2006 £252m), these tax losses can only be offset against specific types of future capital gains The Group also has unrecognised overseas tax credits of £181m (2006 £159m)

25 CALLED UP SHARE CAPITAL

	Authorised				Allotted and fully paid up			
	2007 Number of shares m	2006 Number of shares m	**2007 £m**	2006 £m	**2007 Number of shares m**	2006 Number of shares m	**2007 £m**	2006 £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

	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 2006	2 898	316	(20)	257	1 708	5 159	98	5 257
Profit for the year	–	–	–	–	1 785	1 785	45	1 830
Tax in respect of share schemes	–	–	–	–	23	23	–	23
Dividends	–	–	–	–	(1 047)	(1 047)	(36)	(1 083)
Cash flow hedges								
Net fair value gains/(losses)	–	–	103	–	–	103	–	103
Transfers to income statement	–	–	(1)	–	–	(1)	–	(1)
Tax	–	–	(31)	–	–	(31)	–	(31)
Net investment hedges								
Net fair value gains/(losses)	–	–	–	80	–	80	–	80
Tax	–	–	–	(24)	–	(24)	–	(24)
Currency translation adjustments	–	–	–	(569)	–	(569)	(6)	(575)
Issue of shares	–	–	–	–	–	–	1	1
As at 31 December 2006	2 898	316	51	(256)	2 469	5 478	102	5 580
Profit for the year	–	–	–	–	1 728	1 728	54	1 782
Tax in respect of share schemes	–	–	–	–	43	43	–	43
Dividends	–	–	–	–	(677)	(677)	(37)	(714)
Cash flow hedges								
Net fair value gains/(losses)	–	–	(121)	–	–	(121)	–	(121)
Transfers to income statement	–	–	(7)	–	–	(7)	–	(7)
Tax	–	–	38	–	–	38	–	38
Net investment hedges								
Net fair value gains/(losses)	–	–	–	6	–	6	–	6
Tax	–	–	–	(2)	–	(2)	–	(2)
Currency translation adjustments	–	–	–	88	–	88	13	101
As at 31 December 2007	**2 898**	**316**	**(39)**	**(164)**	**3 563**	**6 574**	**132**	**6 706**

(a) Includes currency translation adjustments of £(99)m (2006 £(94)m) relating to joint ventures and associates
(b) Includes retained earnings in respect of joint ventures and associates of £192m (2006 £194m)

27 COMMITMENTS AND CONTINGENCIES

A) CAPITAL EXPENDITURE
As at 31 December 2007, the Group had placed contracts for capital expenditure amounting to £1 664m (2006 £1 644m) As at 31 December 2007, the Group's joint ventures and associates had placed contracts for capital expenditure, the Group's share of which amounted to £146m (2006 £71m), of which £35m (2006 £3m) is guaranteed by the Group

B) DECOMMISSIONING COSTS ON DISPOSED ASSETS
The Group 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 2007, certain petroleum licences granted to the Group contained outstanding obligations to drill exploration wells, some of which were firm commitments and others contingent The uncontracted cost attributable to the Group of drilling such firm commitment wells is estimated to be £269m (2006 £296m)

27 COMMITMENTS AND CONTINGENCIES continued

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 2007, the pounds Sterling equivalent amounted to £312m (2006 £410m) The Group has guaranteed the repayment of principal, any associated premium and interest on loans due by its subsidiary undertakings As at 31 December 2007, the pounds Sterling equivalent amounted to £1 521m (2006 £1 102m)

E) LEASE COMMITMENTS

Commitments under operating leases as at 31 December were as follows

	Land and buildings		Other		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Amounts due						
Within one year	**23**	21	**119**	84	**142**	105
Between two and five years	**67**	58	**150**	251	**217**	309
Later than five years	**145**	136	**–**	8	**145**	144
Total commitments under operating leases	**235**	215	**269**	343	**504**	558

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

Included within land and buildings are two operating leases over the Group's headquarters, which are located at 100 Thames Valley Park Drive, Reading, Berkshire RG6 1PT The leases expire in 2026

Included within Other are operating leases over LNG ships The last of these leases expires in 2011 The Group sub-leases one of its LNG ships to third parties (2006 one ship) The ship is leased to the Group under a lease included in the table above Total future minimum lease rentals receivable by the Group under this lease were £19m at 31 December 2007 (2006 £32m)

The Group has a long-term power sales arrangement where it receives payments in respect of the availability status of a power station This arrangement is considered an operating lease with the Group as the lessor The total future minimum lease rentals receivable under this lease as at 31 December 2007 were £214m (2006 £284m) split between amounts due within one year £34m (2006 £36m), amounts due between two and five years £121m (2006 £151m) and amounts due over five years £59m (2006 £97m)

At 31 December 2007, the Group had entered into commitments under finance leases commencing after that date of £174m (2006 £96m)

F) LEGAL PROCEEDINGS

The Court of Brindisi is pursuing a criminal investigation against certain former employees and consultants of the Group and BG Italia S p A (BG Italia), a wholly owned subsidiary of the Group, into allegations of improper conduct associated with the authorisation process for the planned Brindisi LNG regasification terminal

The Italian authorities have also alleged that certain current and former directors of Brindisi LNG S p A (Brindisi LNG), a wholly owned subsidiary of BG Italia, unlawfully permitted the occupation and alteration of public land, namely the port area in Brindisi where the regasification terminal is due to be constructed, as a result of improperly authorised permits

Also, BG Italia has been notified by the Court of Brindisi that it is under investigation in relation to the allegations referred to above for possible violations of Legislative Decree No 231/2001, an Italian anti-corruption statute which imposes liability on corporate entities under certain circumstances in the event criminal acts are committed by management or employees of the company

A court hearing in relation to the criminal investigation is scheduled for 29 May 2008 to consider whether criminal charges in relation to the above allegations should be brought against BG Italia and/or any of the individuals involved In addition, the Italian authorities are still carrying out further investigations, the scope of which is unknown

In October 2007, the Group received formal notification from the Ministry of Economic Development that the original 'Article 8' authorisation for the construction and operation of Brindisi LNG had been suspended pending the submission by the Group of a full Environmental Impact Assessment (EIA) and confirmation from the Italian authorities as to the validity of the 'Article 8' authorisation On 15 January 2008, the Group commenced the EIA approval process by submitting an EIA Notwithstanding that the Group has commenced the EIA approval process, the Group has challenged the suspension of the 'Article 8' authorisation in the administrative courts The Municipality of Brindisi has also challenged the suspension, arguing that the authorisation should have been annulled rather than suspended This action, if successful, could result in the authorisation being annulled, subject to any rights of appeal

There are various other ongoing legal proceedings relating to the Brindisi LNG regasification terminal, for example relating to consents necessary for the construction work and environmental procedures The impact of these legal proceedings cannot yet be quantified but could delay or deny BG Group access to the Brindisi LNG terminal site

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 net asset position as shown in these Financial Statements

27 COMMITMENTS AND CONTINGENCIES continued

G) OTHER

The amount of other contingencies and commitments as at 31 December 2007 (mainly the provision of guarantees and indemnities to third parties in respect of the Company and its subsidiary undertakings, in the normal course of business) amounted to £1 568m (2006 £1 349m) The Group's share of other commitments and contingencies in respect of its joint ventures and associates amounted to £22m (2006 £10m)

28 RELATED PARTY TRANSACTIONS

The Group provides goods and services to, and receives goods and services from, its joint ventures and associates In the year ended 31 December 2007, the Group received and incurred the following income and charges respectively

	2007		2006	
	Income £m	Charges £m	Income £m	Charges £m
LNG	**88**	**(440)**	77	(422)
Shipping	**32**	**(15)**	31	(26)
Other	**8**	**–**	12	–
	128	**(455)**	120	(448)

As at 31 December 2007, a debtor balance of £46m (2006 £38m) (see note 17, page 32) and a creditor balance of £46m (2006 £38m) (see note 22, page 40) were outstanding with these parties

In addition, the Group provides financing to some of these parties by way of loans As at 31 December 2007, loans of £658m (2006 £591m) were due from joint ventures and associates These loans are accounted for as part of the Group's investment in joint ventures and associates and disclosed in note 14, page 30 Interest of £29m (2006 £34m) was charged on these loans during the year at interest rates of between 0% and 9 95% (2006 0% and 9 95%) The maximum debt outstanding during the year was £658m (2006 £601m)

The Group also entered into transactions with a joint venture company during the year, which resulted in a finance leasing arrangement As at 31 December 2007, the obligation was £80m (2006 £nil) (see note 20, page 34) The lease expires in 2027

During 2007, Comgas, a non wholly-owned subsidiary undertaking, received charges of £1m (2006 £1m) from another of its shareholders As at 31 December 2007, a balance of £nil (2006 £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 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 in a similar role

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

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

A full independent actuarial valuation of the Scheme for funding purposes 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 has made payments of £22m and intends to make a further payment of £11m in 2008 in order to reduce the Scheme's deficit The next such valuation will be undertaken as at 31 March 2008

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

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

There is an unfunded post-retirement employee benefit plan for healthcare in respect of employees of Comgas Provision has been made in respect of this plan

The Group also has a number of defined contribution schemes and smaller defined benefit schemes These are not material in Group terms

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

Valuations of all of the plans' assets and expected liabilities as at 31 December 2007 were 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

a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets), and

b) 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

	2007		2006	
	BG plans %	Comgas healthcare plan %	BG plans %	Comgas healthcare plan %
Rate of price inflation and benefit increases[a]	3 5	5 0	3 1	5 0
Future increases in earnings	5 5	n/a	5 1	n/a
Discount rate	5 6	11 3	4 9	11 3
Healthcare cost trend rate[b]	n/a	9 2	n/a	9 2

(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 (2006 9 2% trending to 6 8%)

If the discount rate used for the valuation of the BG plans was increased by 0 1% to 5 7%, the defined benefit obligation would decrease by £16m and the service cost for 2008 would decrease by £1m

29 PENSIONS AND POST-RETIREMENT BENEFITS continued

In determining the defined benefit obligation as at 31 December 2007 for the BG plans, mortality assumptions are based on the 1992 mortality series issued by the Institute and Faculty of Actuaries, appropriate to the member's year of birth, with an allowance for projected longevity improvements in line with the CMI Bureau's medium cohort tables, subject to a minimum rate of improvement on the projected mortality rates of 1% per annum Based on these assumptions, the life expectancies of pensioners on the measurement date and also of pensioners in ten years time are as follows

	Life expectancy of pensioners (years)	
	31 Dec 2007	31 Dec 2017
Male age 60	27 2	28 2
Male age 65	22 3	23 2
Female age 60	30 4	31 4
Female age 65	25 4	26 4

If the life expectancy of a member currently age 60 was increased by one year, with consistent changes for members at other ages, the defined benefit obligation in respect of the BG Plans would increase by £15m and the service cost for 2008 would increase by £1m

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

	2007			2006		
	Expected rate of return(a) %	Percentage of plans' assets %	Value £m	Expected rate of return(a) %	Percentage of plans assets %	Value £m
Equities	7 9	63	372	7 7	64	306
Absolute return strategies	7 4	22	128	7 2	20	97
Index-linked gilts	4 6	5	28	4 3	5	23
Corporate bonds	5 9	10	60	5 5	10	49
Cash	4 5	–	3	4 1	1	7
Total market value of assets			591			482
Present value of liabilities			(792)			(727)
Deficit in plans			(201)			(245)
Unrecognised net loss			36			78
Net benefit liability			(165)			(167)

(a) Long term expected rate of return

The expected rate of return on assets has been determined following advice from the funded plans' independent actuary and is based on the expected return on each asset class together with consideration of the long-term asset strategy A real return (relative to price inflation) of 4 4% (a premium of 3 3% over the yield on index-linked gilts) is expected on equities The expected return on absolute return strategies is 0 5% below the equities return The overall expected rate of return as at 31 December 2007 was 7 4%

The actual return on the plans' assets was £55m (2006 £50m)

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

	2007 £m	2006 £m
Amounts recognised in the consolidated income statement		
Operating costs		
Current service cost	52	41
Loss on curtailment	1	2
Recognised actuarial loss	1	2
Past service cost	–	7
Total charge to operating costs	54	52
Net finance costs		
Expected return on the plans' assets	(37)	(31)
Interest on the plans' liabilities	38	33
Total charge to finance costs	1	2
Total included within employee costs	55	54

29 PENSIONS AND POST-RETIREMENT BENEFITS continued

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

	2007 £m	2006 £m
Reconciliation of the present value of the Defined Benefit Obligation (DBO)		
Present value of DBO as at 1 January	**727**	647
Movement in year		
Current service cost	**52**	41
Interest cost	**38**	33
Employee contributions	**4**	4
Actuarial losses	**(24)**	5
Benefit payments (including expenses)	**(12)**	(11)
Curtailments	**1**	2
Past service cost	**–**	7
Foreign exchange movements	**6**	(1)
Present value of DBO as at 31 December	**792**	727

As at 31 December 2007 £727m of the defined benefit obligation relates to wholly funded defined benefit plans (2006 £672m) and £65m relates to unfunded defined benefit plans (2006 £55m)

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

	2007 £m	2006 £m
Reconciliation of the fair value of the plans' assets		
Fair value of the plans' assets as at 1 January	**482**	400
Movement in year		
Expected return on the plans' assets	**37**	31
Actuarial gains	**18**	19
Company contributions	**62**	39
Employee contributions	**4**	4
Benefit payments	**(10)**	(9)
Expenses paid	**(2)**	(2)
Fair value of the plans' assets as at 31 December	**591**	482

The history of experience adjustments is as follows

for the year ended 31 December	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Details of experience gains/(losses) for all plans					
Present value of defined benefit obligations	**(792)**	(727)	(647)	(479)	(406)
Fair value of the plans' assets	**591**	482	400	309	256
Surplus/(deficit) in the plans	**(201)**	(245)	(247)	(170)	(150)
Difference between the expected and actual return on the plans' assets					
Amount (£m)	**18**	19	51	17	28
Percentage of the plans' assets (%)	**3 0**	3 9	12 8	5 5	10 9
Experience gains and losses on the plans' liabilities					
Amount (£m)	**(7)**	10	(6)	(4)	(6)
Percentage of the present value of the plans' liabilities (%)	**0 9**	1 4	0 9	0 8	1 5
Actuarial losses on the plans' liabilities					
Amount (£m)	**24**	(5)	(105)	(24)	(55)
Percentage of the present value of the plans' liabilities (%)	**3 0**	0 7	16 2	5 0	13 5

Aggregate contributions for the year ended 31 December 2008 are expected to be £44m, including £11m in respect of payments made by the Group to reduce the actuarial funding deficit of the Scheme The next independent actuarial valuation for the Scheme will 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 £38m (2006 £33m) The effect of 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 of £0 4m or a decrease of £0 5m (2006 £0 5m increase or £0 4m decrease) and on the accumulated post-retirement benefit obligation would be an increase or decrease of £4m (2006 £4m increase or £3m decrease)

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

CASH GENERATED BY OPERATIONS

	2007 £m	2006 £m
Profit before taxation	**3 015**	3 297
Share of post-tax results of joint ventures and associates	**(163)**	(139)
Depreciation and impairments of property, plant and equipment	**677**	708
Amortisation of other intangible assets	**4**	4
Fair value movements in commodity contracts	**191**	(456)
(Profit)/loss on disposal of non-current assets	**(19)**	49
Unsuccessful exploration expenditure written off	**104**	113
(Decrease)/increase in provisions for liabilities and retirement benefit obligations	**(23)**	5
Finance income	**(152)**	(127)
Finance costs	**159**	102
Movements in working capital		
(Increase)/decrease in inventories	**(153)**	(61)
(Increase)/decrease in trade and other receivables	**(165)**	(304)
Increase/(decrease) in trade and other payables	**192**	158
Cash generated by operations	**3 667**	3 349

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 has been included in the Annual Return filed with the Registrar of Companies in 2008

PRINCIPAL SUBSIDIARY UNDERTAKINGS

as at 31 December 2007	Country of incorporation	Activity	Group holding % (a)
BG Delta Limited	England	Exploration and production	100 0
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 Italia Power S p A	Italy	Power generation	100 0
BG Karachaganak Limited	England	Holding company Exploration and production	100 0
BG Norge Limited	England	Exploration & 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 Gas de São Paulo – (Comgas)	Brazil	Gas distribution	72 7
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
BG Exploration and Production Nigeria Limited	Nigeria	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 Energy Merchants, LLC	USA	Gas trading	100 0
BG LNG Services, LLC	USA	LNG regasification	100 0
BG LNG Trading, LLC	USA	LNG trading	100 0
BG North America, LLC	USA	Holding company	100 0
Lake Road Generating Company LP	USA	Power generation	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%

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 Group's 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 Norge Limited, which operates in the UK & Norway, BG North Sea Holdings Ltd, which operates in the UK & Algeria, BG LNG Trading, LLC, which operates in several countries, BG Tunisia Limited, which operates in Tunisia, BG Trinidad and Tobago Limited, which operates in Trinidad and Tobago, BG Rosetta Limited, which operates in Egypt, BG Egypt S A, which operates in Egypt, BG Delta Limited, which operates in Egypt, BG Karachaganak Limited, which operates in Kazakhstan, BG Exploration and Production India Limited, which operates in India 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 2007	Country of incorporation and operation	Activity	Issued share capital	Group holding %
Joint ventures				
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 8
Seabank Power Limited	England	Power generation	5 280 shares of £1[a]	50 0
Associates				
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
Atlantic LNG 4 Company of Trinidad and Tobago Unlimited	Trinidad and Tobago	LNG manufacture	222 686 shares of $1 000	28 9
BBPP Holdings Ltda	Brazil	Gas distribution	129 000 000 shares of Real 1	33 3
El Behera Natural Gas Liquefaction Company S A E	Egypt	LNG manufacture	30 000 shares of $100	35 5
Idku Natural Gas Liquefaction Company S A E	Egypt	LNG manufacture	30 000 shares of $100	38 0
Genting Sanyen Power Sdn Bhd	Malaysia	Power generation	20 000 000 shares of Ringgit 1	20 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

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 2007 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 2007

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 whether the Parent Company Financial Statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' report is consistent with the Parent Company Financial Statements

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company Financial Statements The other information comprises only the Directors' report 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 2007,
- the Parent Company Financial Statements have been properly prepared in accordance with the Companies Act 1985
- the information given in the Directors' report is consistent with the Parent Company Financial Statements

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH
9 June 2008

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 8

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 expensed 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 closing rates 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 sheet

as at 31 December	Notes	2007 £m	2006 £m
Fixed assets			
Tangible assets	2	1	1
Investments in subsidiary undertakings	3	11 805	11 769
Investments in joint ventures	3	284	249
Investments in associated undertakings	3	1	7
Other investments	3	1	1
		12 092	12 027
Current assets			
Debtors amounts falling due within one year	4	2 772	4 443
Debtors amounts falling due after more than one year	4	7 351	6 332
		10 123	10 775
Investments	5	382	486
Cash at bank and in hand		–	–
		10 505	11 261
Creditors amounts falling due within one year			
Borrowings	6	–	(2)
Other creditors	7	(19 088)	(19 441)
		(19 088)	(19 443)
Net current liabilities		(8 583)	(8 182)
Total assets less current liabilities		3 509	3 845
Creditors amounts falling due after more than one year			
Other creditors	7	(295)	(545)
		(295)	(545)
Net assets		3 214	3 300
Capital and reserves			
Called up equity share capital	9, 10	2 898	2 898
Share premium account	10	316	316
Profit and loss account	10	–	86
BG Energy Holdings shareholders' funds	10	3 214	3 300

Commitments and contingencies are shown in note 11, page 58

The accounts on pages 53 to 59 were approved by the Board and signed on its behalf on 28 May 2008 by

Ashley Almanza, Director

The accounting policies on page 53 together with the notes on pages 55 to 59 form part of these accounts

1 OPERATING COSTS

Audit fees for the audit of the Company's accounts for the year ended 31 December 2007 were £31 500 (2006 £30 000)

2 TANGIBLE FIXED ASSETS

		Motor vehicles and office equipment 2007 £m	Motor vehicles and office equipment 2006 £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				
	Shares £m	Loans £m	Shares £m	Loans £m	Other investments £m	Subsidiary undertakings shares £m	Total £m
Carrying value as at 1 January 2007	64	185	7	–	1	11 769	12 026
Investments	10	25	–	–	–	36	71
Disposals and other adjustments	–	–	(6)	–	–	–	(6)
Carrying value as at 31 December 2007	**74**	**210**	**1**	**–**	**1**	**11 805**	**12 091**

4 DEBTORS

	2007 £m	2006 £m
Amounts falling due within one year		
Amounts owed by group undertakings	**2 702**	4 424
Other debtors	**70**	19
	2 772	4 443
Amounts falling due after more than one year		
Amounts owed by group undertakings	**7 292**	6 221
Other debtors	**57**	109
Deferred corporation tax	**2**	2
	7 351	6 332
Total debtors	**10 123**	10 775

5 CURRENT ASSET INVESTMENTS

	2007 £m	2006 £m
Money market investments	**382**	486

6 BORROWINGS

The Company's treasury policy and other borrowings information disclosed on page 8 of the BG Energy Holdings accounts form part of this note

GROSS BORROWINGS

	2007 £m	2006 £m
Amounts falling due within one year		
Bank loans and overdrafts	–	2
	–	2

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

CURRENCY COMPOSITION OF THE COMPANY'S BORROWINGS

	2007 £m	2006 £m
Sterling	–	2
	–	2

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

	2007 £m	2006 £m
Basis		
Floating rate	–	2
	–	2

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

	2007 £m	2006 £m
Expiring		
Within one year	–	266
Between two and three years	–	266
Between three and four years	–	–
Between four and five years	**522**	–
	522	532

7 OTHER CREDITORS

	2007 £m	2006 £m
Amounts falling due within one year		
Amounts owed to parent undertaking	**826**	873
Amounts owed to group undertakings	**18 211**	18 472
Amounts owed to group undertakings in respect of taxation	**45**	73
Accruals and deferred income	**6**	23
	19 088	19 441
Amounts falling due after more than one year		
Amounts owed to group undertakings	**295**	545
	295	545
Total other creditors	**19 383**	19 986

8 FINANCIAL INSTRUMENTS

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

	2007 Book Value £m	2006 Book Value £m	2007 Fair Value £m	2006 Fair Value £m
Interest rate related derivatives	**–**	–	**3**	2
Currency rate related instruments	**118**	117	**113**	111
Total	**118**	117	**116**	113

Further information on financial instruments is contained on page 35 in the Group accounts

9 SHARE CAPITAL

	2007 Number of shares m	2006 Number of shares m	2007 £m	2006 £m
Authorised				
Equity				
Ordinary shares of £1 each	**5 000**	5 000	**5 000**	5 000

	2007 Number of shares m	2006 Number of shares m	2007 £m	2006 £m
Allotted and fully paid up				
Equity				
Ordinary shares of £1 each	**2 898**	2 898	**2 898**	2 898

10 CAPITAL AND RESERVES

	Called up share capital £m	Share premium account £m	Profit and loss account reserve £m	Total £m
As at 1 January 2007	2 898	316	86	3 300
Transfer from profit and loss account	–	–	(86)	(86)
As at 31 December 2007	**2 898**	**316**	**–**	**3 214**

The profit for the financial year, dealt with in the accounts of the Company was £591m (2006 £1 016m) As permitted by section 230(3) of the Companies Act 1985, no profit and loss account is presented for the Company

11 COMMITMENTS AND CONTINGENCIES

A) CAPITAL EXPENDITURE
As at 31 December 2007, the Company had not placed any contracts for capital expenditure (2006 £nil)

B) LEASE COMMITMENTS
As at 31 December 2007 the Company had no commitments under operating leases (2006 £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 2007, the Sterling equivalent amounted to £1 521m (2006 £1 102m)

D) LEGAL PROCEEDINGS
The Company is a party 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 2007 (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 113m (2006 £1 191m)

12 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

13 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

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

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

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

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

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

14 PENSIONS AND POST-RETIREMENT BENEFITS continued

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

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

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

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

	2007			2006			2005		
	Expected rate of return(a) %	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	7 9	63	372	7 7	64	306	8 0	84	336
Absolute return strategies	7 4	22	128	7 2	20	97	–	–	–
Index-linked gilts	4 6	4	26	4 3	4	21	4 0	5	18
Corporate bonds	5 9	10	60	5 5	10	49	4 8	10	41
Cash	4 5	1	3	4 1	2	7	3 9	1	4
Total market value of assets			589			480			399
Present value of liabilities			(726)			(668)			(590)
Deficit in schemes			(137)			(188)			(191)
Deferred tax asset at 30%			41			56			57
Net benefit liability under FRS 17			(96)			(132)			(134)

(a) Long term expected rate of return

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

	2007	2006	2005	2004	2003
Details of experience gains and (losses) for the year to 31 December					
Difference between the expected and actual return on the Scheme's assets					
Amount (£m)	18	17	50	16	22
Percentage of the Scheme's assets (%)	3 1	3 5	12 5	5 2	8 8
Experience gains / (losses) on the schemes' liabilities					
Amount (£m)	(9)	(4)	(3)	(1)	4
Percentage of the present value of the schemes' liabilities (%)	1 2	0 6	0 5	0 1	1 1
Total gain / (loss) recognised in the consolidated statement of total recognised gains and losses					
Amount (£m)	40	12	(48)	(5)	(21)
Percentage of the present value of the schemes' liabilities (%)	5 5	1 8	8 1	1 0	5 7

Shareholder Information

HEADQUARTERS AND REGISTERED OFFICE ADDRESS
100 Thames Valley Park Drive
Reading,
Berkshire
RG6 1PT
Telephone 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 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

Registered in England & Wales No 3763515

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