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COMPANIES HOUSE

BG Energy Holdings Limited
Annual Report and Accounts 2009

Contents

Parent Company Financial Statements of BG Energy Holdings Limited

Board of Directors

Frank Chapman (56)
Chairman
Frank Chapman was appointed to the BG Energy Holdings Limited Board in October 1999 He 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 35 years Prior to joining BG Group, he spent a total of 22 years with Shell and BP

Ashley Almanza (47)
Ashley Almanza was appointed to the BG Energy Holdings Limited Board in August 2002 He was appointed Chief Financial Officer of BG Group plc in August 2002 and assumed interim responsibility for the management of the Europe & Central Asia region in November 2009 He joined British Gas plc in 1993 and has held a number of key management roles in BG Group including Group Finance Director and Group Financial Controller He is currently responsible for the management of the Europe and Central Asia region, Group finance, tax, treasury, investor relations, mergers and acquisitions, internal audit and secretariat A chartered accountant with a MBA from London Business School, he serves as chairman of The 100 Group, which represents finance directors of the UK's largest listed companies

Martin Houston (52)
Martin Houston was appointed to the BG Energy Holdings Limited Board in November 2000 He was appointed to the BG Group plc Board in February 2009 He joined British Gas in 1983 and was appointed Executive Vice President in 2000 Based in Houston, he is responsible for the Group's activities in the Americas and for the Group's global Liquefied Natural Gas (LNG) activities Martin has gained extensive international experience from a wide variety of technical, commercial and management roles and has played a leading role in developing the Group's LNG business He is a fellow of the Geological Society of London

Jørn Berget (57)
Jørn Berget was appointed to the BG Energy Holdings Limited Board in January 2005 He joined BG Group plc in November 2004 He is Executive Vice President & Managing Director BG Advance and is responsible for the following BG Group functions HSSE geology & geophysics petroleum engineering engineering, operations, well engineering, contracts & procurement and strategy & portfolio development BG Advance is responsible for exploration capital projects and IT & technology and also provides the Group with 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, the Far East, South America and the USA

Robert Booker (43)
Robert Booker was appointed to the BG Energy Holdings Limited Board in February 2009 He joined BG Group plc in 2006 He is responsible for all matters relating to human resources strategy and policy He was appointed to his current position in February 2009 having previously been General Manager, Performance & Reward A chartered accountant, he holds a Masters in Finance from London Business School Formerly, he worked as a senior HR consultant for Ernst &Young and Mercer Human Resource Consulting in the UK and Canada

Sir John Grant KCMG (55)
Sir John was appointed to the BG Energy Holdings Limited Board in September 2009 He joined the Group in September 2009 from BHP Billiton where he was president, Europe He is responsible for government and public affairs, communications, social performance and Business Principles Formerly, he worked in the Diplomatic Service, holding various posts in Stockholm, Moscow and Brussels, where he was the UK s Permanent Representative to the European Union for four years

Sami Iskander (44)
Sami Iskander was appointed to the BG Energy Holdings Limited Board in September 2009 He was appointed to his current position as Executive Vice President &Managing Director, Africa, Middle East and Asia in July 2009, having previously been Senior Vice President Operations and Developments in BG Advance He is currently responsible for the Group's activities across Africa, the Middle East and Asia Prior to joining BG Group in 2008, Sami spent his career with Schlumberger and fulfilled a number of key leadership roles with them, the latest being president of Schlumberger s worldwide drilling and measurements business based in Houston

Directors' report

The Directors present their report and the audited Financial Statements for the year ended 31 December 2009 (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)

The Group explores for, develops, produces and markets gas and oil around the world The Group uses its technical, commercial and gas chain skills to deliver projects at competitive cost and to maximise the sales value of its hydrocarbons

The Group's total production was 234 9 million barrels of oil equivalent (mmboe) in 2009 (2008 226 7 mmboe) a 4% increase The increase in production was primarily due to higher production from Australia, Trinidad and Tobago, Tunisia and production from the USA Production growth of 4% was below original expectations principally due to weakness in demand and the delay to the start-up of the Hasdrubal project in Tunisia Net production from Egypt was 58 1 mmboe Net production in the UK totalled 55 6 mmboe, and in Kazakhstan, net production from the Karachaganak field was 41 5 mmboe In Trinidad and Tobago the Group produced 29 9 mmboe in 2009 Hydrocarbons were also produced in India, Tunisia, Thailand Australia, Bolivia, USA, Canada and Brazil In 2009 the Group drilled 28 conventional wells with 17 successes including Brazil, Norway, Oman and Trinidad and Tobago The Group also completed around 200 unconventional wells during 2009

In May 2010, the Group announced the acquisition of a 50% interest in companies that hold EXCO Resources, Inc s producing and non producing assets in the Appalachian Basin for a total consideration of US$950m

LIQUEFIED NATURAL GAS (LNG)

The Group's LNG activities combine liquefaction and regasification facilities with the purchasing, shipping, marketing and sale of LNG

The Group has equity stakes in liquefaction facilities in Egypt and Trinidad and Tobago and purchases LNG from these plants The Group also has agreements to purchase LNG from Nigeria and Equatorial Guinea

During 2009 the Group supplied LNG cargoes to 17 countries, including its first ever cargoes to Canada Chile, Kuwait and Portugal In 2009, the Group was responsible for importing around 40% of LNG delivered into the USA In Australia the Group is developing a 8 5 mtpa, two-train LNG project, Queensland Curtis LNG near Gladstone, Queensland Construction of the Dragon LNG regasification terminal at Milford Haven, Wales was completed in July and it received its first cargo of LNG that month

The Group continues to pursue the Brindisi LNG regasification project in southern Italy, although no construction has taken place since February 2007 Brindisi LNG submitted the Environmental Impact Assessment (EIA) for the project in January 2008 and re-published the EIA in August 2009 The EIA decree is expected to be issued in the first half of 2010 The timing of first deliveries to the Brindisi terminal is dependent on how soon access to the site can be restored and resolution of various outstanding legal matters – see note 23 on page 47 Construction of the early gas facilities in the GNL Quintero (GNLQ) regasification terminal in Quintero Bay Chile was completed in July The plant is being built in a phased approach with the early gas capacity of 1 5 mtpa being expanded to 2 5 mtpa when the terminal is fully operational in third quarter 2010 BG Group is a 40% shareholder in GNLQ

TRANSMISSION AND DISTRIBUTION (T&D)

The Group's T&D activities are focused in Brazil and India, developing both markets and infrastructure for the delivery of gas

The Group's T&D businesses increased their customer numbers during 2009 Volumes however, were lower reflecting weaker demand and lower gas availability

POWER GENERATION (POWER)

The Group develops, owns and operates a portfolio of gas-fired power generation plants in the UK, USA, Italy, Malaysia, the Philippines and Australia

On 23 March 2010, the Group announced the sale of its power plants in the USA for a total consideration of US$450 million See note 5 on page 30 for further details

In Australia, the 140 MW Condamine Power Station in Queensland started operations in July and is scheduled to reach full capacity in the first half of 2010

For a more detailed review of the principal activities development and performance of the business during 2009 and the position of the Group at the end of the year, please refer to BG Group plc's Annual Report and Accounts 2009 – Business review on pages 2 to 37

KEY PERFORMANCE INDICATORS

The Group has identified the key performance indicators that it believes are useful in assessing how well the Group is performing against its strategic aims The Directors believe that the key performance indicators of the Group are the same as those identified by BG Group For a detailed description and commentary of BG Group's (and therefore the Group's) key performance indicators, please refer to BG Group plc's Annual Report and Accounts 2009 – Key performance indicators for 2009 on pages 4 and 5

PRINCIPAL RISKS AND UNCERTAINTIES

The Group is subject to a broad range of risks such as commodity prices, reserves development and project delivery, operational performance and Health, Safety, Security and Environment (HSSE)

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 2009 – Principal risks and uncertainties on pages 30 to 33 Further detail on certain financial risks facing the Group is also provided in Financing and financial risk factors on page 10 of this report

RESULTS AND DIVIDEND
For the year ended 31 December 2009, the profit before tax was £3 609m (2008 £5 453m) An interim dividend of £1 978m was proposed and paid during 2009 (2008 £873m) no final dividend has been proposed Further details are set out in the Financial Statements, pages 12 to 54

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 Robert Booker, Sami Iskander and Sir John Grant KCMG were appointed as directors, on 6 February 2009 4 September 2009 and 7 September 2009 respectively Peter Duffy, Charles Bland and Mark Carne ceased to be directors, on 19 January 2009, 4 September 2009 and 10 November 2009, respectively

BG Group maintains liability insurance for its Directors and officers The insurance does not provide cover in the event that the indemnified individual is proved to have acted fraudulently or dishonestly

DIRECTORS' REMUNERATION
The aggregate emoluments paid to Directors during the period in respect of qualifying services was £6 903 396 (2008 £4 823 358) This figure excludes amounts paid to Frank Chapman, Ashley Almanza and Martin Houston in 2009 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 2009

During the period, the Company contributed to a defined benefit pension scheme or a personal pension plan for all Directors except Frank Chapman Ashley Almanza and Martin Houston Pension contributions in respect of Frank Chapman, Ashley Almanza and Martin Houston were paid by BG Group plc

The Chairman's emoluments for the year ended 31 December 2009 were £nil Of the aggregate amount of emoluments paid to Directors during the period £1 070 534 was paid to the highest paid Director The accrued pension of the highest paid Director as at 31 December 2009 was £58 790 per annum

Two Directors employed by the Group exercised share options during the period, including the highest paid Director Shares were received or receivable under long term incentive schemes in respect of qualifying services by four Directors employed by the Group during the period, including the highest paid Director

RESEARCH AND DEVELOPMENT
The Companies Act 2006 requires the Directors' Report to state any activities in the field of research and development undertaken by the Company The Company currently has no significant activities to report upon

See note 3 on page 23 for research and development expenditure included in the income statement

BRANCHES
The Group, through various subsidiaries, has established branches in a number of different countries in which the business operates

EMPLOYEES
The Group had 6 187 employees worldwide as at 31 December 2009, of which 4 183 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 2009, the Group donated around £0 2m to registered charities in the UK

Under BG Group s Statement of Business Principles the Group s policy is not to make donations for political purposes In 2009, 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 2009 on pages 36 to 37

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 10 to 11 and 38 to 44

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 2009 (2008 20 days') based on the average daily amount invoiced by suppliers during the year

Directors' report continued

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

As required by Sections 418 and 419 of the Companies Act 2006, 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 consider that the Group's business activities and financial resources ensure it is well placed to manage its business risks successfully

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 responsible for preparing the Annual Report and the Group and the Parent Company Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Financial Statements for each financial year Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006 and the Parent Company Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period

The Directors consider that, in preparing the Financial Statements on pages 12 to 54 and on pages 57 to 61 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and all applicable accounting standards have been followed The Company has complied with UK disclosure requirements in this report in order to present a consistent picture to shareholders

The Directors have 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 that enable them to ensure that the Financial Statements comply with the Companies Act 2006

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 on 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 2010

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 2009 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet Consolidated statement of changes in equity Consolidated cash flow statement, Principal accounting policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the Directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view Our responsibility is to audit the Group Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS
An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the Financial Statements

OPINION ON FINANCIAL STATEMENTS
In our opinion the Group Financial Statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006
In our opinion the information given in the Directors Report for the financial year for which the Group Financial Statements are prepared is consistent with the Group Financial Statements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- certain disclosures of Directors' remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

OTHER MATTER
We have reported separately on the Parent Company Financial Statements of BG Energy Holdings Limited for the year ended 31 December 2009

Nicholas Blackwood (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
2 June 2010

Principal accounting policies

BASIS OF PREPARATION

The Financial Statements of the Group for the year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the EU In addition the Financial Statements have been prepared in accordance with those parts of the Companies Act 2006 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 56 The Auditors' report for the Company's Financial Statements is on page 55

The preparation of Financial Statements in conformity with IFRS requires management to make judgements 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 6 to 9 and in note 5 page 30, note 10, page 32 and note 18, page 38 One particular factor that affects most of these policies is the estimation of hydrocarbon reserves The Group's estimates of reserves of gas and oil are reviewed and, where appropriate updated quarterly They are also subject to periodic review by external petroleum engineers A number of factors impact on the amount of gas and oil reserves, including available reservoir data, commodity prices and future costs and the amount is subject to periodic revision as these factors change

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 2009 – Supplementary information – gas and oil (unaudited) pages 118 to 125

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 reportable segments are operating segments that engage in different business activities for the Group The Group s Board and management review the results of operating segments

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 Asset lives and residual values are reassessed annually 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

Exploration and production assets associated with unconventional activities, including coal seam and shale gas are depreciated from commencement of production in the fields concerned using the unit of production method based on proved plus probable reserves, together with the estimated future development expenditure required to develop those reserves

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

Changes in depreciation and amortisation estimates are dealt with prospectively

IMPAIRMENT OF NON-CURRENT ASSETS
Non-current assets subject to depreciation or amortisation are reviewed for impairments whenever events or other changes in circumstances indicate that the carrying amount may not be recoverable

Any impairment of non-current assets (excluding financial 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 Fair value less costs to sell is based on the best evidence available to the Group and may include appropriate valuation techniques, market data or sales of comparable assets Impairment reviews cover all operating segments

For the purposes of impairment testing, assets may be aggregated into appropriate cash generating units based on considerations including geographical location the use of common facilities and marketing arrangements

The Group uses a range of 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 Page 10 includes further detail in relation to commodity prices and exchange rates

Exploration and production activities form the Group's largest business segment, the results of which are sensitive to a number of factors but particularly to commodity prices

The Group performs impairment testing for gas and oil properties using its proved plus probable reserves estimates which are based on the SEC definition

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 that 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

Capitalised exploratory well costs relate to 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 assets

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 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 arising in individual companies 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

Principal accounting policies continued

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in 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 or substantively 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

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 derivatives to manage the composition of floating and fixed rate debt The Group enters into currency derivatives 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 Other derivative financial instruments utilised by the Group's treasury operations include forward rate agreements and forward exchange contracts The Group's policy is to enter into interest or exchange rate derivatives only where these are matched by an underlying asset, liability or transaction

Derivative financial instruments are recognised at fair value on the balance sheet Certain derivative financial instruments are designated as hedges under IAS 39 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 hedge 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 or is no longer expected to occur 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 relevant 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 and, accordingly, are not recognised in the Financial Statements

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

Certain long-term gas sales contracts operating in the UK gas market have terms within the contract that constitute written options, and accordingly they fall within the scope of IAS 39 They are recognised on the balance sheet at fair value with movements in fair value recognised in the income statement In addition commodity instruments are used to manage certain price exposures in respect of optimising the timing and location of 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 under IAS 39 as cash flow hedges of underlying commodity price exposures, certain gains and losses attributable to these instruments are deferred in equity and recognised in the income statement when the underlying hedged transaction crystallises or is no longer expected to occur

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 derivatives associated with the physical purchase, storage and resale 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 that 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

Financing and financial risk factors

FINANCING

As at 31 December 2009, net borrowings (comprising cash and cash equivalent investments finance leases currency and interest rate derivative financial instruments and short and long-term borrowings) were £2 957 million compared to £973 million as at 31 December 2008

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 Company Limited, who 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 2009, the Company had aggregate committed multicurrency revolving borrowing facilities of US$1 040 million expiring in 2012, US$1 090 million expiring in 2011 and US$375 million expiring in 2010 There are no restrictions on the application of funds under these facilities, all of which were undrawn as at 31 December 2009 BGEH Borrowers had a US$2 0 billion US Commercial Paper Programme, of which US$1 3 billion was unutilised, a US$2 0 billion Euro Commercial Paper Programme of which US$1 9 billion was unutilised, and a US$7 5 billion Euro Medium Term Note Programme, of which US$5 2 billion was unutilised In addition, at 31 December 2009, BGEH had uncommitted borrowing facilities including multicurrency lines, overdraft facilities of £45 million and credit facilities of US$20 million all of which were unutilised During 2009, capital markets issuance by BGEH Borrowers included a £500 million bond due in 2017 and a €750 million bond due in 2013

As at 31 December 2009 Comgas had committed borrowing facilities of Brazilian Reais (BRL) 1 748 million (£619 million) of which BRL 500 million (£177 million) was unutilised, and uncommitted borrowing facilities of BRL 495 million (£175 million), of which BRL 140 million (£50 million) was 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 the money and capital markets and existing committed lines of credit

FINANCIAL RISK FACTORS

The principal financial risks faced by the Group 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 cash flows and profitability are sensitive to natural gas, crude oil and LNG prices (and related price spreads) which are dependent on a number of factors that have an impact on world supply and demand The Group's exposure to commodity prices also varies according to a number of other factors, including the mix of production and sales

Rapid movement in commodity prices has led to sales prices becoming disconnected from costs in recent years especially as falls in industry costs (for materials, goods and services from industry suppliers and manufacturers) can lag behind falls in commodity prices This puts pressure on investment and project economics that depend in part upon the degree and timing of commitments to particular cost structures

The Group's sensitivity to oil prices is set to increase due to the contribution of significant amounts of oil-related revenue, notably from Brazil However, the Group's portfolio also includes a range of long-term gas contracts that are not directly or immediately linked to short-term changes in commodity prices Additionally, some LNG purchase contracts contain provisions under which the gas suppliers share price risk with the Group The Group does not as a matter of course, hedge all commodity prices, but may hedge certain LNG contracts and other 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 Projects are screened against a wide range of external sensitivities, including benchmark commodity prices

Exchange rates

The Group's financial results up to and including the results for the financial year ended 31 December 2009 have been reported in Pounds Sterling A significant majority of the Group's business activity is conducted in US Dollars and the Group holds substantial US Dollar denominated assets, as well as other non-Sterling assets and liabilities Consequently the Group s results and financial position were affected by exchange rate fluctuations From 1 January 2010, the Group will report its financial results in US Dollars As a result of business activities and asset and liability positions conducted or held in other currencies, the Group's results and financial position will continue to be affected by exchange rate fluctuations

The Group mitigates its exposure to certain currencies other than the US Dollar (primarily Pounds Sterling, the Brazilian Real and the Australian Dollar) by denominating a portion of its after-swap borrowings in such currencies, with the balance denominated in US Dollars The Group hedges certain expected cash flows into US Dollars Currency hedging is also undertaken to mitigate currency exposure in certain cross-border transactions

Interest rate and liquidity risk

The Group's financing costs may be 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 borrowings are substantially floating rate Exceptions from this policy require approval from BG Group's Finance Committee The Group maintains adequate committed borrowing facilities and holds its financial assets primarily in short-term, highly liquid investments that are readily convertible to known amounts of cash The Group imposes limits on the amount of borrowings that mature within any specific period

Credit

The challenging credit environment witnessed during the past two years has highlighted the importance of managing of credit risk The Group s exposure to credit risk takes the form of a loss that would be recognised if counterparties (including sovereign entities) failed to or were unable to, meet their payment obligations These risks may arise in all forms of commercial agreements and in certain agreements relating 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 that exacerbate country risk, which may cause non-payment of foreign currency obligations to the Group by governments or government-owned entities, or otherwise impact successful project delivery and implementation The impact of credit issues could also lead to the failure of companies in the sector, potentially including partners contractors and suppliers

Credit exposure risk is monitored centrally for individual transactions including concentration risk and the appropriateness of limits The Group considers each counterparty's (including sovereign entities) financial and credit condition prior to entering into commercial contracts, trading sales agreements, swaps, futures and options contracts The Group may also seek contractual or other forms of protection or mitigation, including cash collateral, letters of credit, security over assets or parent company guarantees Where multiple transactions are undertaken with a single counterparty or group of related counterparties, the Group may enter into a netting arrangement For physical commodity trading, the Group seeks to put in place bespoke master netting agreements or standard arrangements appropriate to the local market

Consolidated income statement

	Notes	2009 Business Performance £m	2009 Disposals, re measurements and impairments £m	2009 Total £m	2008 Business Performance £m	2008 Disposals re measurements and impairments £m	2008 Total £m
		for the year ended 31 December					
Group revenue	2	10 213	–	10 213	12 566	–	12 566
Other operating income	2, 5	150	105	255	36	157	193
Group revenue and other operating income	2	10 363	105	10 468	12 602	157	12 759
Operating costs	3	(6 470)	–	(6 470)	(7 481)	–	(7 481)
Profit and losses on disposal of non-current assets and impairments	5	–	(446)	(446)	–	(24)	(24)
Operating profit/(loss)[a]	2	3 893	(341)	3 552	5 121	133	5 254
Finance income	5, 6	63	4	67	227	49	276
Finance costs	5 6	(192)	(22)	(214)	(180)	(55)	(235)
Share of post-tax results from joint ventures and associates	2	204	–	204	158	–	158
Profit/(loss) before tax		3 968	(359)	3 609	5 326	127	5 453
Taxation	5, 7	(1 639)	101	(1 538)	(2 241)	(70)	(2 311)
Profit/(loss) for the year	2, 5	2 329	(258)	2 071	3 085	57	3 142
Profit attributable to							
Shareholder (earnings)	2 5	2 233	(258)	1 975	3 060	59	3 119
Minority interests	2 5	96	–	96	25	(2)	23
		2 329	(258)	2 071	3 085	57	3 142

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

For information on dividends paid and proposed in the year see note 8, page 32

Consolidated statement of comprehensive income

for the year ended 31 December	2009 £m	2008 £m
Profit for the year	2 071	3 142
Net fair value (losses)/gains on cash flow hedges	(198)	772
Transfers to income statement on cash flow hedges[a]	(484)	24
Transfers to non-current assets on cash flow hedges	1	8
Net fair value gains/(losses) on net investment hedges	18	(83)
Tax on cash flow and net investment hedges[b]	186	(202)
Fair value movements on 'available for-sale assets', net of tax of £1m (2008 £nil)	2	–
Currency translation adjustments[c]	36	2 181
Other comprehensive (expense)/income for the year, net of tax	(439)	2 700
Total comprehensive income for the year	1 632	5 842
Attributable to		
Shareholder	1 522	5 812
Minority interests	110	30
	1 632	5 842

(a) During 2009 a pre tax gain of £441m (2008 £14m loss) was transferred from the hedging reserve to revenue to match against the underlying transactions and a pre tax gain of £43m (2008 £10m loss) was transferred from the hedging reserve to other operating income in respect of discontinued cash flow hedges

(b) Includes tax relating to cash flow hedges of £191m (2008 £(225)m) and tax relating to net investment hedges of £(5)m (2008 £23m)

(c) In 2009 £nil (2008 £11m gain) was transferred to the income statement as part of the profit/(loss) on disposal of foreign operations

The accounting policies on pages 6 to 11 together with the notes on pages 17 to 54 form part of these accounts

Consolidated balance sheet

	Notes	as at 31 December 2009 £m	2008 £m
Assets			
Non-current assets			
Goodwill	10	**483**	417
Other intangible assets	11	**4 744**	3 713
Property, plant and equipment	12	**13 242**	11 288
Investments	13	**1 828**	1 631
Deferred tax assets	21	**136**	72
Trade and other receivables	15	**78**	95
Commodity contracts and other derivative financial instruments	18	**377**	935
		20 888	18 151
Current assets			
Inventories	14	**476**	562
Trade and other receivables	15	**2 971**	3 671
Current tax receivable		**104**	91
Commodity contracts and other derivative financial instruments	18	**1 013**	1 538
Cash and cash equivalents	16	**692**	1 032
		5 256	6 894
Total assets		**26 144**	25 045
Liabilities			
Current liabilities			
Borrowings	17	**(717)**	(281)
Trade and other payables	19	**(5 434)**	(4 823)
Current tax liabilities		**(978)**	(1 112)
Commodity contracts and other derivative financial instruments	18	**(861)**	(1 453)
		(7 990)	(7 669)
Non-current liabilities			
Borrowings	17	**(3 111)**	(1 897)
Trade and other payables	19	**(39)**	(38)
Commodity contracts and other derivative financial instruments	18	**(526)**	(528)
Deferred tax liabilities	21	**(1 936)**	(2 056)
Retirement benefit obligations	25	**(172)**	(178)
Provisions for other liabilities and charges	20	**(952)**	(927)
		(6 736)	(5 624)
Total liabilities		**(14 726)**	(13 293)
Net assets		**11 418**	11 752

The accounting policies on pages 6 to 11 together with the notes on pages 17 to 54 form part of these accounts

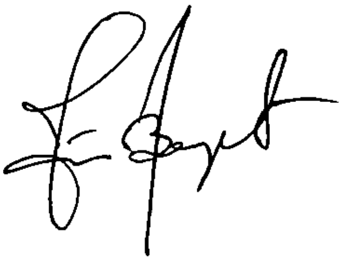
Consolidated balance sheet continued

		as at 31 December	
	Notes	2009 £m	2008 £m
Equity			
Ordinary shares	22	**2 898**	2 898
Share premium		**316**	316
Hedging reserve		**50**	540
Translation reserve		**1 985**	1 950
Retained earnings		**5 970**	5 922
Total shareholders' equity		**11 219**	11 626
Minority interest in equity		**199**	126
Total equity		**11 418**	11 752

All inter-company transactions are eliminated on consolidation. Commitments and contingencies are shown in note 23, page 47.

The accounts on pages 6 to 54 were approved by the Board and signed on its behalf on 28 May 2010 by:

Jørn Berget
Director



The accounting policies on pages 6 to 11 together with the notes on pages 17 to 54 form part of these accounts.

Consolidated statement of changes in 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 2008	2 898	316	(39)	(164)	3 649	6 660	132	6 792
Total comprehensive income for the year	–	–	579	2 114	3 119	5 812	30	5 842
Adjustment for share schemes	–	–	–	–	26	26	–	26
Tax in respect of share schemes[c]	–	–	–	–	1	1	–	1
Disposal of minority interest	–	–	–	–	–	–	(1)	(1)
Dividends	–	–	–	–	(873)	(873)	(35)	(908)
As at 31 December 2008	2 898	316	540	1 950	5 922	11 626	126	11 752
Total comprehensive income for the year	–	–	(490)	35	1 977	1 522	110	1 632
Adjustment for share schemes	–	–	–	–	34	34	–	34
Tax in respect of share schemes[c]	–	–	–	–	15	15	–	15
Dividends	–	–	–	–	(1 978)	(1 978)	(37)	(2 015)
As at 31 December 2009	**2 898**	**316**	**50**	**1 985**	**5 970**	**11 219**	**199**	**11 418**

(a) Includes currency translation adjustments of £51m (2008 £181m) relating to joint ventures and associates
(b) Includes retained earnings in respect of joint ventures and associates of £258m (2008 £199m)
(c) This consists of current tax £14m (2008 £21m) and deferred tax £1m (2008 £(20)m)

The accounting policies on pages 6 to 11 together with the notes on pages 17 to 54 form part of these accounts

Consolidated cash flow statement

	Notes	2009 £m	2008 £m
		for the year ended 31 December	
Cash generated by operations	26	**4 900**	6 281
Income taxes paid		**(1 352)**	(1 887)
Net cash inflow from operating activities		**3 548**	4 394
Cash flows from investing activities			
Dividends received		**145**	151
Proceeds from disposal of subsidiary undertakings and investments[a]		**–**	15
Proceeds from disposal of property, plant and equipment and intangible assets		**3**	2
Purchase of property, plant and equipment and intangible assets		**(4 328)**	(2 796)
Loans to joint ventures and associates		**(65)**	(125)
Business combinations and investments[b]		**(736)**	(2 061)
Net cash outflow from investing activities		**(4 981)**	(4 814)
Cash flows from financing activities			
Interest paid[c]		**(138)**	(163)
Interest received		**32**	144
Dividends paid		**(1 978)**	(873)
Dividends paid to minorities		**(36)**	(35)
Net proceeds from issue of new borrowings[d]		**1 842**	300
Repayment of borrowings		**(222)**	(371)
Funding movements with parent company		**1 627**	353
Net cash inflow/(outflow) from financing activities		**1 127**	(645)
Net decrease in cash and cash equivalents		**(306)**	(1 065)
Cash and cash equivalents at 1 January	16	**1 032**	1 879
Effect of foreign exchange rate changes		**(34)**	218
Cash and cash equivalents at 31 December	16	**692**	1 032

In 2009, the Group completed the exchange of equity interests in certain production assets (see note 12, page 34) Other non-cash transactions in 2009 included the acquisition of property, plant and equipment settled using certain pre-existing receivables with the same counterparty (see note 12, page 34) There were no major non-cash transactions in 2008

(a) In 2008 includes disposals of subsidiary undertakings of £15m net of £4m cash held

(b) In 2009 includes the purchase of Pure Energy Resources Limited of £464m and TGGT Holdings LLC for £193m In 2008 includes the purchase of Queensland Gas Company Limited of £2 000m net of cash acquired of £156m and payment outstanding at the year end of £53m

(c) Includes capitalised interest of £31m (2008 £22m)

(d) Includes net cash flows relating to short maturity financing items

The accounting policies on pages 6 to 11 together with the notes on pages 17 to 54 form part of these accounts

Notes to the 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 2009 is set out below

IAS 1 (revised) 'Presentation of Financial Statements'
The International Accounting Standards Board (IASB) issued amendments to IAS 1 in September 2007 which were applicable for the year ended 31 December 2009 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 In accordance with this standard the Group has continued to report a separate 'Consolidated Income Statement' and has reported a separate 'Consolidated Statement of Comprehensive Income' in place of a Consolidated Statement of Recognised Income and Expense' In addition, the Group has presented a 'Consolidated Statement of Changes in Equity' as part of its primary Financial Statements for the year ended 31 December 2009

Amendments to IFRS 7 'Improving Disclosures about Financial Instruments'
In March 2009 the IASB issued amendments to IFRS 7 which were applicable for the year ended 31 December 2009 These amendments introduce a three level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements In addition, the amendments clarify and enhance existing requirements for the disclosure of liquidity risk The additional information required by these amendments can be found in note 18 page 38

Improvements to IFRSs
The IASB issued amendments to a number of IFRSs in May 2008 as part of its annual improvement project The amendments included a change to IAS 1 regarding the current/non-current classification of derivative financial instruments This amendment clarifies that a derivative that is neither held for trading purposes nor a designated hedging instrument should be presented as current or non-current on the basis of its settlement date This amendment along with the majority of those resulting from the annual improvement project was applicable for the year ended 31 December 2009 None of the amendments resulted in a material change to the Group's Financial Statements

IAS 23 (revised) '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 amendments were applicable for the year ended 31 December 2009 but did not result in any changes to the Group's Financial Statements

Amendment to IFRS 2 'Share-based Payment Vesting Conditions and Cancellations'
The IASB issued an amendment to IFRS 2 in January 2008 The amendment clarified the definition of vesting conditions and the accounting treatment of cancellations, including cancellations by parties other than the Company The amendment was applicable for the year ended 31 December 2009 but did not result in any changes to the Group's Financial Statements

Amendments to IFRIC 9 'Reassessment of Embedded Derivatives' and IAS 39 'Financial Instruments Recognition and Measurement'
In March 2009 the IASB issued amendments to IFRIC 9 and IAS 39 The amendments clarified the accounting treatment of embedded derivatives in relation to financial instruments that have been reclassified out of the 'at fair value through profit or loss' category The amendment was applicable for the year ended 31 December 2009 but did not result in any changes to the Group's Financial Statements

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'
The International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 16 in July 2008 which was applicable for the year ended 31 December 2009 The interpretation clarifies the nature and amount of foreign exchange risk that qualifies as a hedged item under a net investment hedge and where, in a group, hedging instruments can be held The IFRIC did not result in any changes to the Group s Financial Statements

IFRIC 18 'Transfers of Assets from Customers'
The IFRIC issued IFRIC 18 in January 2009 which was applicable on a prospective basis from 1 July 2009 The interpretation clarifies the requirements for agreements in which an entity receives from a customer an item of property plant and equipment that the entity must then use to connect the customer to a distribution network or provide an ongoing supply of goods or services The interpretation also extends to agreements in which an entity receives cash from a customer for the purpose of constructing or acquiring property, plant and equipment for the same purpose The IFRIC did not result in any material change to the Group's Financial Statements

The following standards, amendments and interpretations were also applicable for the year ended 31 December 2009 and were either not relevant to BG Group or had no impact on the Group's Financial Statements

- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation'
- Amendments to IFRS 1 and IAS 27 'Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate',
- IFRIC 13 'Customer Loyalty Programmes', and
- IFRIC 15 'Agreements for the Construction of Real Estate'

Notes to the accounts continued

1 NEW ACCOUNTING STANDARDS AND POST BALANCE SHEET EVENTS continued

The following standards, amendments and interpretations have been issued by the IASB and IFRIC up to the date of this report, but have not been adopted by the Group in these Financial Statements and in some cases have not yet been endorsed by the EU

IFRIC 12 'Service Concession Arrangements'

IFRIC 12 Service Concession Arrangements' provides guidance on the accounting by operators for public-to-private service concession arrangements and will be applied by the Group for the first time for the year ended 31 December 2010 IFRIC 12 requires infrastructure considered to be under the control of a regulator rather than an operator to be recognised as an intangible concession asset and amortised over the concession period Prior to the adoption of IFRIC 12 such infrastructure was recognised as property, plant and equipment of the operator and depreciated over its useful economic life The interpretation also requires additions to the infrastructure incurred by the operator to be accounted for as a construction contract with the regulator, with revenues and associated costs recognised in the income statement on a percentage of completion basis

The Group has reviewed its concession arrangements in advance of the application date of IFRIC 12 and has concluded that the Comgas concession in Brazil falls within the scope of the interpretation Accordingly on 1 January 2010 infrastructure which forms part of the transmission and distribution network operated by Comgas of approximately £1 billion will be recognised as intangible assets resulting in a corresponding decrease to property, plant and equipment The Group will also restate comparative information in the Group s Financial Statements for the year ended 31 December 2010 to reflect the accounting requirements of IFRIC 12 The adoption of IFRIC 12 is not expected to have a material impact on the net assets or earnings of the Group

IFRS 3 (revised) 'Business Combinations'

The IASB issued IFRS 3 (revised) in January 2008 The revised standard has introduced changes to the accounting for contingent consideration and transaction costs, as well as allowing an option to calculate goodwill based on the parent s share of net assets only or including goodwill relating to minority interests (non-controlling interests) The standard is applicable to business combinations arising in accounting periods beginning on or after 1 July 2009 and will be adopted by the Group for the year ended 31 December 2010

IAS 27 (revised) 'Consolidated and Separate Financial Statements'

The IASB issued IAS 27 (revised) in January 2008 The revisions require the effects of transactions with non-controlling interests to be recorded in equity when there is no change in control, and specify the accounting on loss of control The revisions are applicable for accounting periods beginning on or after 1 July 2009 and will be adopted by the Group for the year ended 31 December 2010

IFRS 9 'Financial Instruments'

The IASB issued IFRS 9 in November 2009 The standard introduces new requirements for the classification and measurement of financial assets and is applicable for accounting periods beginning on or after 1 January 2013 The Group is currently reviewing the standard to determine the likely impact on the Group

IAS 24 (revised) 'Related Party Disclosures'

The IASB issued IAS 24 (revised) in November 2009 The revisions provide a partial exemption from the disclosure requirements for government related entities and simplify the definition of a related party The revisions are applicable for accounting periods beginning on or after 1 January 2011 and are not expected to have a material impact on the Group's Financial Statements

Amendment to IAS 39 'Financial Instruments Recognition and Measurement Eligible Hedged Items'

The IASB issued an amendment to IAS 39 in July 2008 The amendment clarifies how the existing principles underlying hedge accounting should be applied in the designation of a one-sided risk in a hedged item and inflation in a financial hedged item The amendment is applicable for accounting periods beginning on or after 1 July 2009 and is not expected to have a material impact on the Group's Financial Statements

Amendment to IFRS 2 'Share-based Payment Group Cash-settled Share-based Payment Transactions'

The IASB issued an amendment to IFRS 2 in June 2009 The amendment clarifies the scope and accounting for group cash-settled share based payment transactions in the separate or individual financial statements of the entity receiving goods or services when that entity has no obligation to settle the share-based payment transaction The amendment is applicable for accounting periods beginning on or after 1 January 2010 and is not expected to have a material impact on the Group's Financial Statements

Improvements to IFRSs

The IASB issued amendments to a number of IFRSs in April 2009 as part of its annual improvement project These amendments will be adopted by the Group for the year ended 31 December 2010 and are not expected to have a material impact on the Group's Financial Statements

Other standards, amendments and interpretations

Up to the end of 2009 IFRIC issued IFRIC 17 'Distribution of Non-cash Assets to Owners', applicable for accounting periods beginning on or after 1 July 2009, IFRIC 19 Extinguishing Financial Liabilities with Equity' applicable for accounting periods on or after 1 July 2010 amendments to IFRIC 14 'Prepayments of a Minimum Funding Requirement ' applicable for accounting periods on or after 1 January 2011 and amendments to IAS 32 'Classification of Rights Issues', applicable for accounting periods beginning on or after 1 February 2010 These amendments and interpretations are not expected to have a material impact on the Group's Financial Statements

Post balance sheet events

In March 2010, the Group announced the sale of its power plants in the USA for a total consideration of US$450m Also, in the first quarter of 2010 the Group committed to sell its Canadian exploration and production assets See note 5, page 30 for further information on these transactions

In April 2010, the Group signed an agreement to purchase Common Resources, LLC jointly with EXCO Resources, Inc for approximately US$446m (US$223m net to the Group)

Also in April 2010, the Group announced the sale of its interest in Seabank Power Limited for a total consideration of £212m

In May 2010 the Group announced the acquisition of a 50% interest in companies that hold EXCO Resources, Inc's producing and non-producing assets in the Appalachian Basin for a total consideration of US$950m

2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION

The Group s reportable segments are those used by the Group's Board and management (the 'Chief Operating Decision Maker' as defined in IFRS 8 ('Operating Segments') to run the business and are based on differences in the Group's products and services Segment information is presented on the same basis as that used for internal reporting purposes The Group's four principal operating and reporting segments in 2009 comprise Exploration and Production (E&P), Liquefied Natural Gas (LNG), Transmission and Distribution (T&D), and Power Generation (Power) 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 Other activities primarily comprise costs relating to business development expenditure and certain corporate activities

In 2009, the operations were structured in four main geographical areas Europe and Central Asia region, Africa, Middle East and Asia region, Americas and Global LNG region and Australia region

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, non current assets, net assets, gross assets and gross liabilities, depreciation and amortisation and capital investment attributable to the Group activities are shown on pages 19 to 22, analysed by operating segment Additional information on capital investment is also provided on a geographical basis

The presentation of the Group's results under International Financial Reporting Standards (IFRS) separately identifies the effect of the re-measurement of certain financial instruments and profits and losses on the disposal and impairment of non-current assets and businesses Results excluding disposals, certain re-measurements and impairments ('Business Performance) are used by management and are presented in order to provide readers with a clear and consistent presentation of the underlying operating performance of the Group's ongoing business

The disposals, re-measurements and impairments column includes unrealised gains and losses in respect of certain long-term UK gas sales contracts classified as derivatives under IAS 39 commodity instruments that represent economic hedges but do not qualify for hedge accounting, and financial instruments used to manage foreign exchange and interest rate exposure The separate presentation of these items best reflects the underlying performance of the business since it distinguishes between the temporary timing differences associated with re-measurements under IAS 39 rules and actual realised gains and losses

Under IFRS the results from jointly controlled entities (joint ventures) and associates are presented net of tax and finance costs on the face of the income statement The Group also presents the operating profit of the Group including results of joint ventures and associates before interest and tax, as this approach provides additional information on the source of the Group's operating profits

The following tables provide a reconciliation between the overall results and Business Performance and operating profit including and excluding the results of joint ventures and associates

The geographical analysis of external revenue is based on destination

GROUP REVENUE

Analysed by operating segment

	External Revenue		Intra group Revenue		Total Group Revenue	
for the year ended 31 December	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Group revenue[(a)(b)]						
Exploration and Production	**4 524**	5 297	**265**	394	**4 789**	5 691
Liquefied Natural Gas	**3 744**	5 265	**52**	121	**3 796**	5 386
Transmission and Distribution	**1 433**	1 383	**–**	–	**1 433**	1 383
Power Generation	**512**	617	**–**	–	**512**	617
Segmental revenue	**10 213**	12 562	**317**	515	**10 530**	13 077
Other activities	**–**	4	**–**	–	**–**	4
Less intra-group revenue	**–**	–	**(317)**	(515)	**(317)**	(515)
Group revenue	**10 213**	12 566	**–**	–	**10 213**	12 566

(a) External revenue attributable to the UK is £2 410m (2008 £2 624m) External revenue attributable to foreign countries is £7 803m (2008 £9 942m) and includes £1 285m from external customers attributed to Brazil representing 13% of Group revenue (2008 £1 285m 10%) and £662m from external customers attributed to Japan representing 6% of Group revenue (2008 £1 309m 10%)

(b) External revenue in respect of a single external customer amounted to £1 102m in 2009 recognised in the E&P and LNG segments No single customer accounted for more than 10% of external revenue in 2008

Notes to the accounts continued

2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION continued

PROFIT FOR THE YEAR
Analysed by operating segment

	Business Performance		Disposals, re-measurements and impairments		Total	
for the year ended 31 December	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Group revenue	**10 213**	12 566	**–**	–	**10 213**	12 566
Other operating income[(a)(b)]	**150**	36	**105**	157	**255**	193
Group revenue and other operating income	**10 363**	12 602	**105**	157	**10 468**	12 759
Operating profit/(loss) before share of results from joint ventures and associates[(c)]						
Exploration and Production	**2 087**	3 512	**(99)**	151	**1 988**	3 663
Liquefied Natural Gas	**1 340**	1 445	**43**	–	**1 383**	1 445
Transmission and Distribution	**399**	132	**(1)**	(2)	**398**	130
Power Generation	**66**	37	**(284)**	–	**(218)**	37
Other activities	**1**	(5)	**–**	(16)	**1**	(21)
	3 893	5 121	**(341)**	133	**3 552**	5 254
Pre-tax share of operating results of joint ventures and associates						
Liquefied Natural Gas	**211**	140	**–**	–	**211**	140
Transmission and Distribution	**27**	28	**–**	–	**27**	28
Power Generation	**92**	81	**–**	–	**92**	81
	330	249	**–**	–	**330**	249
Total operating profit/(loss)						
Exploration and Production	**2 087**	3 512	**(99)**	151	**1 988**	3 663
Liquefied Natural Gas	**1 551**	1 585	**43**	–	**1 594**	1 585
Transmission and Distribution	**426**	160	**(1)**	(2)	**425**	158
Power Generation	**158**	118	**(284)**	–	**(126)**	118
Other activities	**1**	(5)	**–**	(16)	**1**	(21)
	4 223	5 370	**(341)**	133	**3 882**	5 503
Net finance income/(costs)						
Finance income	**63**	227	**4**	49	**67**	276
Finance costs	**(192)**	(180)	**(22)**	(55)	**(214)**	(235)
Share of joint ventures and associates	**(47)**	(52)	**–**	–	**(47)**	(52)
	(176)	(5)	**(18)**	(6)	**(194)**	(11)
Taxation						
Taxation	**(1 639)**	(2 241)	**101**	(70)	**(1 538)**	(2 311)
Share of joint ventures and associates	**(79)**	(39)	**–**	–	**(79)**	(39)
	(1 718)	(2 280)	**101**	(70)	**(1 617)**	(2 350)
Profit for the year	**2 329**	3 085	**(258)**	57	**2 071**	3 142
Profit attributable to						
Shareholder (earnings)	**2 233**	3 060	**(258)**	59	**1 975**	3 119
Minority interests	**96**	25	**–**	(2)	**96**	23
	2 329	3 085	**(258)**	57	**2 071**	3 142

(a) 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 LNG operations and unrealised gains and losses arising from the mark to market movements 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 18 page 38 Further information on other operating income is given in note 5 page 30

(b) Business Performance Other operating income is attributable to segments as follows E&P £22m (2008 £(9)m) LNG £112m (2008 £40m) and Power £16m (2008 £5m)

(c) Operating profit/(loss) before share of results from joint ventures and associates includes disposals and provisions for impairment of £(446)m (2008 £(24)m) attributable to segments as follows E&P £(161)m (2008 £(6)m) T&D £(1)m (2008 £(2)m) Power £(284)m (2008 £nil) and Other activities £nil (2008 £(16)m) Also included are (i) non-cash re-measurements of £105m (2008 £157m) attributable to segments as follows E&P £62m (2008 £157m) and LNG £43m (2008 £nil) and (ii) £349m (2008 £245m) of unsuccessful exploration expenditure written off and charged to the E&P segment

2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION continued

Analysed by operating segment

Total operating profit/(loss)	Business Performance		Disposals re-measurements and impairments		Total	
for the year ended 31 December	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Exploration and Production	**2 087**	3 512	**(99)**	151	**1 988**	3 663
Liquefied Natural Gas	**1 551**	1 585	**43**	–	**1 594**	1 585
Transmission and Distribution	**426**	160	**(1)**	(2)	**425**	158
Power Generation	**158**	118	**(284)**	–	**(126)**	118
	4 222	5 375	**(341)**	149	**3 881**	5 524
Other activities	**1**	(5)	**–**	(16)	**1**	(21)
	4 223	5 370	**(341)**	133	**3 882**	5 503
Less Pre-tax share of operating results of joint ventures and associates					**(330)**	(249)
Add Share of post-tax results from joint ventures and associates					**204**	158
Net finance (costs)/income					**(147)**	41
Profit before tax					**3 609**	5 453
Taxation					**(1 538)**	(2 311)
Profit for the year					**2 071**	3 142

JOINT VENTURES AND ASSOCIATES

Analysed by operating segment

	Pre-tax share of operating results of joint ventures and associates		Share of net finance costs and tax of joint ventures and associates		Share of post tax results from joint ventures and associates	
for the year ended 31 December	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Liquefied Natural Gas	**211**	140	**(74)**	(46)	**137**	94
Transmission and Distribution	**27**	28	**(13)**	(8)	**14**	20
Power Generation	**92**	81	**(39)**	(37)	**53**	44
	330	249	**(126)**	(91)	**204**	158

ASSETS AND LIABILITIES

Analysed by operating segment

	Non-current assets (a)(b)		Total assets		Total liabilities		Net assets/(liabilities)	
as at 31 December	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Exploration and Production	**14 721**	11 895	**16 903**	14 367	**(2 738)**	(3 266)	**14 165**	11 101
Liquefied Natural Gas	**2 934**	2 550	**4 545**	5 216	**(1 410)**	(1 907)	**3 135**	3 309
Transmission and Distribution	**1 734**	1 412	**1 974**	1 646	**(431)**	(477)	**1 543**	1 169
Power Generation	**984**	1 285	**1 134**	1 492	**(68)**	(84)	**1 066**	1 408
	20 373	17 142	**24 556**	22 721	**(4 647)**	(5 734)	**19 909**	16 987
Other activities	**2**	2	**83**	54	**(103)**	(147)	**(20)**	(93)
Net borrowings, net interest and tax			**1 505**(c)	2 270(c)	**(9 976)**(d)	(7 412)(d)	**(8 471)**	(5 142)
	20 375	17 144	**26 144**	25 045	**(14 726)**	(13 293)	**11 418**	11 752

(a) Excludes financial instruments and deferred tax assets and includes investment in joint ventures and associates of £1 812m (2008 £1 620m) attributable to segments as follows E&P £193m (2008 £nil) LNG £1 137m (2008 £1 108m) T&D £153m (2008 £165m) and Power £329m (2008 £347m)

(b) Amount attributable to the UK is £3 346m (2008 £3 108m) Amount attributable to foreign countries is £17 029m (2008 £14 036m) and includes £4 212m (2008 £2 732m) attributable to Australia representing 21% (2008 16%) of the Group total

(c) Includes £692m of cash and cash equivalents (2008 £1 032m) £522m of financial derivatives (2008 £1 014m) and amounts owed by parent undertaking of £48m (2008 £55m)

(d) Includes current tax liabilities of £(978)m (2008 £(1 112)m) deferred tax of £(1 936)m (2008 £(2 056)m) borrowings of £(3 828)m (2008 £(2 178)m) derivatives of £(343)m (2008 £(841)m) and amounts owed to parent undertaking of £(2 856)m (2008 £(1 204)m)

Notes to the accounts continued

2 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION continued

DEPRECIATION, AMORTISATION AND IMPAIRMENT
Analysed by operating segment

for the year ended 31 December	2009 £m	2008 £m
Exploration and Production[a]	**1 118**	717
Liquefied Natural Gas	**49**	56
Transmission and Distribution	**61**	47
Power Generation[b]	**348**	56
Other activities[c]	**2**	23
	1 578	899

(a) In 2009 includes provision for impairment of £163m (2008 £nil) Further details of impairments are given in note 5 page 30
(b) In 2009 includes provision for impairment of £284m (2008 £nil) Further details of impairments are given in note 5 page 30
(c) In 2008 includes provision for impairment of £19m

CAPITAL INVESTMENT
Analysed by operating segment

	Capital expenditure (a)		Capital investment (b)	
for the year ended 31 December	2009 £m	2008 £m	2009 £m	2008 £m
Exploration and Production	**4 033**	2 760	**4 226**	4 952
Liquefied Natural Gas	**565**	82	**653**	273
Transmission and Distribution	**150**	135	**151**	136
Power Generation	**163**	36	**175**	82
Other activities	**–**	1	**–**	1
	4 911	3 014	**5 205**	5 444

Analysed by geographical segment

	Capital expenditure (a)		Capital investment (b)	
for the year ended 31 December	2009 £m	2008 £m	2009 £m	2008 £m
Europe and Central Asia	**745**	814	**796**	897
Africa, Middle East and Asia	**1 352**	1 296	**1 355**	1 304
Americas and Global LNG	**1 879**	645	**2 119**	775
Australia	**935**	259	**935**	2 468
	4 911	3 014	**5 205**	5 444

(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

3 OPERATING COSTS

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

	2009 £m	2008 £m
Raw materials, consumables and finished goods	**2 496**	4 057
Inventory adjustments to net realisable value[a]	**13**	17
Employee costs (see note 4(C), page 25)	**600**	492
Less Own work capitalised	**(106)**	(69)
Employee costs included within Other exploration expenditure and Research and development, below	**(39)**	(37)
Employee costs included within Finance costs	**(12)**	(2)
	443	384
Amounts written off Other intangible assets and Property, plant and equipment		
Depreciation and impairments of Property, plant and equipment (see note 12, page 34)	**1 503**	895
Amortisation and impairments of Goodwill (see note 10, page 32) and Other intangible assets (see note 11, page 33)	**75**	4
Less impairments reported within Profits and losses on disposal of non-current assets and impairments	**(447)**	(19)
	1 131	880
Unsuccessful exploration expenditure written off	**349**	245
Other operating charges		
Other exploration expenditure	**251**	206
Operating lease rentals	**256**	194
Research and development	**10**	11
Tariffs, royalties, liquefaction and regasification costs	**694**	758
Net foreign exchange losses/(gains) on operating activities	**29**	(43)
Other costs[b]	**798**	772
	6 470	7 481

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

Notes to the accounts continued

3 OPERATING COSTS continued

ACCOUNTANTS' FEES AND SERVICES

PricewaterhouseCoopers LLP has served as the Group's independent external auditors for the two-year period ended 31 December 2009, for which audited financial statements appear in this Annual Report and Accounts The auditors are deemed to be re-appointed under Section 487 of the Companies Act 2006 and accordingly PricewaterhouseCoopers LLP remains in office

The audit fees relating to BG Energy Holdings Limited for the audit of the Parent Company and the Group's accounts for 2009 were £36 000 (2008 £34 000)

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

	2009 £m	2008 £m
Fees payable to the Group's auditors and its associates for other services pursuant to legislation		
The audit of the Parent's subsidiaries, pursuant to legislation[a]	**1 8**	1 0
Other services pursuant to legislation[b]	**0 2**	0 2
Total fees payable pursuant to legislation	**2 0**	1 2
Tax services[c]	**0 8**	1 4
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 2**	0 4
All other services[d]	**0 3**	0 2
	3 3	3 2

In 2009 £20 000 of audit fees relates to audits of the pension schemes (2008 £31 000)

(a) In 2009 includes fees in respect of the audit of the Group s operations in Australia
(b) Other services pursuant to legislation includes costs relating to the interim review and regulatory reporting
(c) In 2008 £1m of fees were incurred for tax advice related to exceptional merger and acquisition activities Tax services also 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) transfer pricing and requests for rulings or technical advice from tax authorities tax planning services and expatriate tax planning and services
(d) 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

4 DIRECTORS AND EMPLOYEES

A) DIRECTORS' REMUNERATION

Directors' remuneration is given in the Directors' report on page 3

B) KEY MANAGEMENT COMPENSATION

Key management compensation analysed below represents amounts in respect of the Directors and the executive officers defined as BG Group's Group Executive Committee (GEC), excluding Frank Chapman, Ashley Almanza, Martin Houston and Keith Hubber, whose emoluments are payable by BG Group plc

	2009 £m	2008 £m
Salaries	**3**	3
Benefits[a]	**–**	1
Bonuses[b]	**3**	2
Pension charge	**1**	1
Share-based payments[c]	**3**	5
Termination payments and payments in lieu of notice	**4**	–
	14	12

(a) Total benefits of £0 1m were paid to key management in 2009
(b) Bonus figures for 2009 represent payments under the Annual Incentive Scheme (AIS) in respect of the 2009 incentive year which were made in 2010 Bonus figures for 2008 represent payments under the AIS in respect of the 2008 incentive year which were made in 2009 Bonuses excludes remuneration given in the form of deferred shares
(c) Share based payments for 2009 include a charge for deferred shares awarded to key management under the AIS in respect of the 2008 incentive year

C) EMPLOYEE COSTS

	2009 £m	2008 £m
Wages and salaries[a]	**389**	301
Social security costs	**38**	32
Pension charge[b]	**61**	59
Share-based payments (see note 4(E), page 26)	**44**	25
Other including incentive schemes	**68**	75
	600	492

(a) Includes termination payments and payments in lieu of notice made to key management see (B) above
(b) The pension charge for the year ended 31 December 2009 includes £3m (2008 £3m) in respect of payments made for pension curtailments in redundancy £1m (2008 £nil) of which has been provided as part of a restructuring provision The pension charge for the year ended 31 December 2009 includes £12m (2008 £2m) which is presented within finance costs (see note 6 page 31)

In 2009, employee costs of £494m (2008 £423m) were charged to the income statement and £106m (2008 £69m) were capitalised

D) AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR

	Employed in the UK		Employed outside the UK	
	2009 Number	2008 Number	2009 Number	2008 Number
Exploration and Production	**1 528**	1 321	**1 970**	1 628
Liquefied Natural Gas	**107**	109	**475**	421
Transmission and Distribution	**11**	86	**1 625**	1 489
Power Generation	**266**	236	**93**	86
Other activities	**–**	–	**–**	15
	1 912	1 752	**4 163**	3 639

Notes to the accounts continued

4 DIRECTORS AND EMPLOYEES continued

E) SHARE-BASED PAYMENTS

The cost recognised in respect of share-based payments for 2009 was £44m (2008 £25m) of which £34m (2008 £26m) related to equity-settled share-based payment transactions and £10m (2008 £1m credit) related to cash-settled share-based payments

BG Group plc's Group Share Awards

Details of BG Group plc's Group Share Awards under the Group's Long Term Incentive Plan (LTIP) are given in BG Group plc's Annual Report and Accounts 2009 In 2009, awards of 2 5m ordinary shares (2008 1 9m ordinary shares) were made 1 4m of these awards were in the form of nil-cost options (2008 nil) The costs in respect of these awards are charged to the income statement over the vesting period, based upon the fair value of BG Group plc s shares at the award date In 2009, the amount recognised by the Group in respect of Group Share Awards was £9m (2008 £2m) Dividend equivalents accrue on the awards during the vesting period Accordingly, the fair value of the shares awarded is based on the market value of BG Group plc s shares on the award date, which was £10 19 in 2009 (2008 £11 19)

As at 31 December 2009 total awards of 4 2m shares (2008 1 9m) were outstanding, which included nil-cost options over 1 4m shares (2008 nil) Nil-cost options can be exercised between three and ten years from the grant date

BG Group plc's Performance Share Awards

Details of BG Group plc's Performance Share Awards under the Group's LTIP are given in BG Group plc's Annual Report and Accounts 2009 Details of the awards to Frank Chapman, Ashley Almanza and Martin Houston are given in BG Group plc s Annual Report and Accounts 2009 In 2009, awards of 4 9m ordinary shares (2008 3 4m ordinary shares) were made In 2009, 3 7m of these awards were in the form of nil-cost options (2008 nil)

The costs in respect of these awards are charged to the income statement over the vesting period, based upon the fair value of BG Group plc's shares at the award date adjusted for the probability of market-related performance conditions being achieved In 2009, the amount recognised by the Group in respect of Performance Share Awards was £4m (2008 £1m)

The fair value of shares awarded during the year in respect of BG Group plc s Performance Share Awards is estimated using a Monte Carlo projection model with the following assumptions weighted average BG Group plc share price of £10 19 (2008 £11 19), exercise price of £nil (2008 £nil), a risk-free rate of 1 9% (2008 3 6%) and a vesting period of three years (2008 three years) The model also contains assumptions for both BG Group plc and each member of the industry peer group (as set out in BG Group plc's Annual Report and Accounts 2009, page 53) in respect of volatility, average share price growth and share price correlation Dividend equivalents accrue on the award during the vesting period The fair value reflects the probability of market performance conditions being achieved The fair value of shares awarded during the year was £4 79 per share (2008 £5 67 per share) The assumptions used in estimating the fair value of shares for the Performance Share Awards are based on US data because most of the companies selected as industry peers 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

As at 31 December 2009, total awards of 7 4m shares (2008 3 2m) were outstanding, which included nil-cost options over 3 5m shares (2008 nil) Nil-cost options can be exercised between three and ten years from the grant date

BG Group plc's Deferred Bonus Awards

Deferred Bonus Awards are made under BG Group plc's Deferred Bonus Plan which operates in conjunction with BG Group plc's Annual Incentive Scheme (AIS) and is described in BG Group plc s Annual Report and Accounts 2009 In 2009, awards of 0 2m ordinary shares were made (2008 nil) The charge to the income statement in respect of these awards was £1m (2008 £nil) The fair value of the shares awarded is based on the market value of BG Group plc's shares at the award date, which was £9 98

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 2009 Details of share options held by Frank Chapman, Ashley Almanza and Martin Houston under the CSOS are given in BG Group plc's Annual Report and Accounts 2009 No grants have been made since 2007

The costs of this scheme are charged to the income statement over the vesting period, based upon the fair value of the share options at the grant date and the likelihood of allocations vesting under the scheme In 2009, the amount recognised by the Group in respect of the CSOS was £12m (2008 £16m)

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 2009 Details of notional allocations to Frank Chapman Ashley Almanza and Martin Houston under the LTIS are given in BG Group plc's Annual Report and Accounts 2009 No allocations have been made since 2007

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 2009, the amount recognised by the Group in respect of the LTIS was £3m (2008 £6m) As at 31 December 2009, notional allocations of 2 8m ordinary shares (2008 5 9m ordinary shares) were outstanding under BG Group plc s LTIS

4 DIRECTORS AND EMPLOYEES continued

BG Group plc's Sharesave Plan

Details of BG Group plc's Sharesave Plan (the Sharesave Plan) are given in BG Group plc's Annual Report and Accounts 2009 Details of share options held by Frank Chapman, Ashley Almanza and Martin Houston are given in BG Group plc's Annual Report and Accounts 2009 In 2009 grants of 0 5m (2008 0 4m) share options were made under the Sharesave Plan

The costs of this plan 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 plan In 2009 the amount recognised by the Group in respect of the Sharesave Plan was £1m (2008 £1m)

The fair value of share options granted during the year in respect of the Sharesave Plan is estimated using a Black-Scholes option pricing model with the following assumptions BG Group plc share price of £11 21 (2008 £8 00), exercise price of £8 63 (2008 £7 66), dividend yield of 1 0% (2008 1 0%), volatility of 43% (2008 38%), a risk-free rate of 1 64% (2008 2 23%) and an expected life of three years (2008 three years) The fair value of share options granted during the year was £4 35 per share (2008 £2 24 per share)

Expected volatility was determined by calculating the historical volatility of 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 Plan

BG Group plc's Share Incentive Plan

Details of BG Group's Share Incentive Plan (SIP) are given in BG Group plc's Annual Report and Accounts 2009 In 2009, awards of 0 4m ordinary shares were made as Flex Share Awards in conjunction with BG Group plc's UK Flexible Benefits Plan

Under IFRS 2, the charge to the income statement in respect of the award is based on the market value of BG Group plc's shares at the grant date The fair value of the shares awarded during the year was £10 66 per share In 2009, the amount recognised by the Group in respect of the SIP was £4m (2008 £nil)

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 £3m has been made in respect of cash-settled CSOS awards (2008 £1m) the terms of which are the same as the equity-settled CSOS awards and a charge of £7m (2008 £2m credit) has been made in respect of social security costs on employee share option and share plans The charge for cash-settled CSOS awards and social security costs on employee share option and share plans 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 allocations 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 22 (2008 £9 57), weighted average exercise price of £7 92 (2008 £7 87) dividend yield of 1 0% (2008 1 0%), volatility of 37 00% (2008 34 10%), a weighted average risk free rate of 1 67% (2008 2 26%) and a weighted average expected life of three years (2008 four years) The average fair value of non-vested cash-settled CSOS awards at the balance sheet date was £4 25 (2008 £3 23) 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 social security 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

To determine the social security costs in respect of the CSOS awards, the following assumptions were used BG Group plc share price of £11 22 (2008 £9 57), weighted average exercise price of £7 92 (2008 £7 46), dividend yield of 1 0% (2008 1 0%), volatility of 37 00% (2008 34 10%), a weighted average risk-free rate of 1 67% (2008 2 04%) and a weighted average expected life of three years (2008 three years) The average fair value of non-vested CSOS awards at the balance sheet date was £4 25 (2008 £3 32) 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

To determine the social security costs in respect of the LTIS awards the following assumptions were used BG Group plc share price of £11 22 (2008 £9 57), volatility of 43 00% (2008 40 60%), a weighted average risk-free rate of 0 65% (2008 0 85%), and a weighted average expected life of one year (2008 one year) The weighted average fair value of LTIS awards at the balance sheet date was £9 66 (2008 £8 58)

To determine the social security costs in respect of the Performance Share Awards the following assumptions were used BG Group plc share price of £11 22 (2008 £9 57), volatility of 43 00% (2008 40 60%), a weighted average risk-free rate of 1 45% (2008 1 73%) and a weighted average expected life of two years (2008 three years) The weighted average fair value of Performance Share Awards at the balance sheet date was £5 31 (2008 £4 72) For the Group Share Awards, the fair value of the award was based on the market price of BG Group plc shares at the balance sheet date

Notes to the accounts continued

4 DIRECTORS AND EMPLOYEES continued

F) ANALYSIS OF SHARE OPTIONS AS AT 31 DECEMBER 2009

	Date of grant	Number of shares m	Weighted average option price £	Normal exercisable date	Weighted average remaining contractual life
Sharesave Scheme and Sharesave Plan options					
	2004	0 13	2 74	2009	0yr 4mths
	2005	0 14	3 95	2010	1yr 4mths
	2006	0 43	5 82	2009/11	1yr 11mths
	2007	0 63	7 16	2011	1yr 7mths
	2008	0 35	7 66	2012	2yrs 7mths
	2009	**0 53**	**8 63**	**2013**	**3yrs 6mths**
Company Share Option Scheme options[(a)]					
	2000	0 13	2 685	2010	0yr 10mths
	2001	0 31	2 5634	2011	1yr 10mths
	2002	0 75	2 5175	2012	2yrs 8mths
	2003	1 93	2 705	2013	3yrs 8mths
	2004	2 90	3 4733	2014	4yrs 8mths
	2005	5 94	4 9942	2015	5yrs 8mths
	2006	0 03	6 26	2016	6yrs 1mth
	2006	7 91	6 8983	2016	6yrs 8mths
	2007	10 47	7 92	2017	7yrs 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

G) WEIGHTED AVERAGE EXERCISE PRICE OF SHARE OPTIONS

	2009 Sharesave Scheme and Sharesave Plan options £	2009 CSOS options £	2008 Sharesave Scheme and Sharesave Plan options £	2008 CSOS options £
Outstanding as at 1 January	**5 76**	**5 76**	4 96	5 60
Granted	**8 63**	**–**	7 66	–
Exercised	**3 86**	**4 76**	3 09	4 07
Forfeited	**6 11**	**7 51**	5 30	6 34
Outstanding as at 31 December	**6 86**	**6 11**	5 76	5 76
Exercisable as at 31 December	**4 03**	**5 16**	3 62	3 98

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

4 DIRECTORS AND EMPLOYEES continued

H) SUMMARY OF MOVEMENTS IN SHARE OPTIONS

	Sharesave Scheme and Sharesave Plan options m	CSOS options m
2008		
Outstanding as at 1 January 2008	2 5	55 1
Granted	0 4	–
Exercised	(0 5)	(6 5)
Forfeited	(0 1)	(3 6)
Outstanding as at 31 December 2008 – number	2 3	45 0
Exercisable as at 31 December 2008 – number	0 1	21 6
Option price range as at 31 December 2008 (£)	2 19 – 7 66	2 52 – 7 92
Option price range for exercised options (£)	2 19 – 7 16	2 52 – 7 92
Weighted average share price at the date of exercise for options exercised during the year (£)	10 35	10 76

2009		
Outstanding as at 1 January 2009	2 3	45 0
Granted	0 5	–
Exercised	(0 5)	(13 2)
Forfeited	(0 1)	(1 4)
Outstanding as at 31 December 2009 – number	**2 2**	**30 4**
Exercisable as at 31 December 2009 – number	**0 2**	**19 9**
Option price range as at 31 December 2009 (£)	**2 74 – 8 63**	**2 52 – 7 92**
Option price range for exercised options (£)	**2 19 – 7 16**	**2 52 – 7 92**
Weighted average share price at the date of exercise for options exercised during the year (£)	**10 80**	**10 89**

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

Notes to the accounts continued

5 DISPOSALS, RE-MEASUREMENTS AND IMPAIRMENTS

The Group has separately identified profits and losses related to disposals, impairments and certain re-measurements of derivative instruments A reconciliation of results before and after disposals, re-measurements and impairments is given in note 2, page 19

	2009 £m	2008 £m
Other operating income		
Re-measurements of commodity based contracts	105	157
Profits and losses on disposal of non-current assets and impairments	(446)	(24)
Finance income	4	49
Finance costs	(22)	(55)
Taxation	101	(70)
Profit/(loss) for the year	**(258)**	57
Profit/(loss) attributable to		
Shareholder (earnings)	**(258)**	59
Minority interests	–	(2)

OTHER OPERATING INCOME

Re-measurements included within Other operating income amount to a credit of £105m (2008 £157m), £53m of this credit (2008 £131m) represents unrealised mark-to-market movements on certain long-term UK gas contracts While 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 Other re-measurements include derivatives representing economic hedges not in formal hedge relationships Further information on commodity instruments is given in note 18, page 38

DISPOSAL OF NON-CURRENT ASSETS AND IMPAIRMENTS

2009

During the first quarter of 2010, the Group committed to sell its Canadian exploration and production assets (see note 1, page 18) This decision provided additional information relevant for determining the fair value of these assets as at the reporting date Accordingly, these assets were revalued to the lower of their carrying amount and fair value less costs to sell This resulted in an impairment charge of £163m in the E&P segment (post-tax £117m)

On 23 March 2010 the Group announced the sale of its power plants in the USA for a total consideration of US$450m (see note 1, page 18) This announcement provided additional information relevant for determining the fair value of these assets as at the reporting date The recoverable amount of the US power assets was determined on a fair value less costs to sell basis, based on the total consideration set out in the Sale and Purchase Agreement This resulted in an impairment charge of £284m in the Power segment (post-tax £193m) recognised in 2009

In 2009 other plant disposals and write-offs resulted in a pre and post-tax credit to the income statement of £1m

2008

In March 2008, the Group committed to a plan to dispose of certain non-core businesses, within Other activities The disposals completed in July 2008 for a cash consideration of £19m resulting in a pre- and post-tax charge to the income statement of £16m

In 2008, other plant disposals and write-offs resulted in a pre tax charge to the income statement of £8m (post-tax £7m)

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, offset by foreign exchange movements and hedge adjustments on certain borrowings in subsidiaries

6 FINANCE INCOME AND COSTS

	2009 £m	2008 £m
Interest receivable[a]	**63**	276
Net fair value gains and losses on interest rate and currency exchange rate derivatives	**12**	–
Fair value hedge adjustments	**(8)**	–
Finance income	**67**	276

	2009 £m	2008 £m
Interest payable	**(123)**	(99)
Finance lease charges	**(53)**	(57)
Other finance charges	**(2)**	(15)
Less interest capitalised[b]	**31**	22
Unwinding of discount on provisions and pension obligations[c]	**(45)**	(31)
Exchange losses[a]	**(22)**	–
Net fair value gains and losses on interest rate and currency exchange rate derivatives	**–**	(34)
Fair value hedge adjustments	**–**	(21)
Finance costs	**(214)**	(235)

	2009 £m	2008 £m
Net finance (costs)/income[d]	**(147)**	41

(a) Finance income includes exchange gains of £25m (2008 net exchange gains of £145m) Exchange losses (2008 net exchange gains) 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) 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 1 9% per annum (2008 4 8%) Tax relief for capitalised interest is approximately £9m (2008 £6m)

(c) 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 25 page 49) Also includes the unwinding discount on decommissioning and other provisions (see note 20 page 45)

(d) Excludes the Group s share of net finance costs from joint ventures and associates of £47m (2008 £52m)

7 TAXATION

	2009 £m	2008 £m
Current tax		
UK – corporation tax at 28% and 50% (2008 28 5% and 50%)	**1 235**	1 699
– petroleum revenue tax at 50% (2008 50%)	**14**	27
– adjustments in respect of prior periods	**(59)**	(11)
– less double tax relief	**(460)**	(627)
UK tax charge	**730**	1 088
Overseas tax charge	**655**	990
– adjustments in respect of prior periods	**31**	(19)
Current tax charge	**1 416**	2 059
Deferred tax		
Temporary differences	**140**	234
Recognition of previously unrecognised deferred tax asset	**(20)**	–
Deferred petroleum revenue tax at 50% (2008 50%)	**2**	18
Tax charge	**1 538**	2 311

The tax credit relating to disposals, re-measurements and impairments is £101m (2008 tax charge £70m) This consists of a tax charge on unrealised re-measurements of £36m (2008 tax charge £71m) and a tax credit on disposals and impairments of £137m (2008 tax credit £1m)

7 **TAXATION** continued

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

	2009 £m	2008 £m
Profit before taxation	**3 609**	5 453
Tax at UK statutory rates on profit	**1 228**	1 900
Effect on tax charge of		
Non tax-deductible or non-taxable items	**63**	50
Overseas or petroleum revenue taxes at different rates to statutory rates	**262**	374
Prior year and other adjustments including unrelieved overseas tax losses	**(15)**	(13)
Tax charge	**1 538**	2 311

8 **DIVIDENDS**

No final dividend has been proposed by the Directors for 2009 (2008 £nil) An interim dividend of £1 978m was paid on 15 December 2009 (2008 £873m)

9 **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

10 **GOODWILL**

	2009 £m	2008 £m
Cost and net book value as at 1 January	**417**	385
Transfers	**–**	13
Currency translation adjustments	**81**	19
Charge for impairment (see note 5, page 30)	**(15)**	–
Net book value as at 31 December	**483**	417

as at 31 December	2009 £m	2008 £m
Cost	**498**	417
Accumulated impairment	**(15)**	–
Net book value	**483**	417

For the purpose of impairment testing goodwill is allocated to groups of cash generating units (CGU) and represents the lowest level at which goodwill is monitored The Group tests goodwill annually for impairment or more frequently if there are indications that it might be impaired

As at 31 December 2009, the majority of the goodwill recognised related to Comgás, which is classified within the T&D segment Comgas is defined as a CGU for impairment testing purposes No goodwill impairment has been recognised in respect of this CGU

The recoverable amount of the Comgas CGU is determined from value in use calculations, using cash flow projections based on approved financial plans covering a five year period The projected cash flows are adjusted for associated risks and are discounted using a nominal rate of 8% (pre-tax) The volume growth rate assumptions used in the plans were based on past performance and management's expectations of market development The annual volume growth rates in the business plan used to determine cash flows beyond the five year period are between 4% and 5% and do not exceed the average long-term growth rate for the relevant markets

During the year an impairment charge was booked against goodwill held in respect of the US power plants amounting to £15m

11 OTHER INTANGIBLE ASSETS

	Expenditure on unproved gas and oil reserves		Other (a)		Total	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Cost as at 1 January	**3 656**	769	**80**	68	**3 736**	837
Additions	**1 651**	818	**2**	3	**1 653**	821
Business combinations	**–**	1 880	**–**	15	**–**	1 895
Disposals and unsuccessful exploration expenditure[(b)]	**(350)**	(240)	**–**	(16)	**(350)**	(256)
Transfer to property, plant and equipment	**(650)**	(57)	**–**	–	**(650)**	(57)
Other movements[(c)]	**29**	2	**(15)**	(13)	**14**	(11)
Currency translation adjustments	**425**	484	**(3)**	23	**422**	507
Cost as at 31 December	**4 761**	3 656	**64**	80	**4 825**	3 736
Amortisation as at 1 January	**–**	–	**(23)**	(14)	**(23)**	(14)
Charge for the year	**–**	–	**(4)**	(4)	**(4)**	(4)
Charge for impairment (see note 5, page 30)	**(56)**	–	**–**	–	**(56)**	–
Currency translation adjustments	**–**	–	**2**	(5)	**2**	(5)
Amortisation as at 31 December	**(56)**	–	**(25)**	(23)	**(81)**	(23)
Net book value as at 31 December	**4 705**	3 656	**39**	57	**4 744**	3 713

(a) As at 31 December 2009 Other includes the contractual rights in respect of the purchase of LNG regasification services and related gas sales at Elba Island in the USA The estimated aggregate amortisation expense from 2010 to 2014 is £3m per annum The average remaining life of the contractual rights is 11 years and 5 months (2008 12 years and 4 months)

(b) Disposals and unsuccessful exploration expenditure includes £349m (2008 £240m) in respect of unsuccessful exploration expenditure written off In 2008 an additional £5m of expenditure relating to a previously unsuccessful well was charged directly to the income statement

(c) Following finalisation of the fair values attributed to the net assets of Queensland Gas Company Limited (acquired in 2008) £15m has been transferred from Other intangible assets to Expenditure on unproved gas and oil reserves No other adjustments have been made to the net assets acquired

Notes to the accounts continued

12 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 2009	108	749	3 001	546	13 125	17 529
Additions	14	77	775	198	2 194	3 258
Disposals, transfers and other movements[a]	–	–	(6)	(14)	486	466
Currency translation adjustments	2	154	(211)	(5)	(851)	(911)
Cost as at 31 December 2009	**124**	**980**	**3 559**	**725**	**14 954**	**20 342**
Accumulated depreciation as at 1 January 2009	(41)	(116)	(714)	(178)	(5 192)	(6 241)
Charge for the year	(2)	(29)	(121)	(89)	(886)	(1 127)
Charge for impairment (see note 5, page 30)	–	–	(269)	–	(107)	(376)
Disposals and transfers[a]	–	–	2	4	378	384
Currency translation adjustments	–	(38)	32	5	261	260
Accumulated depreciation as at 31 December 2009	**(43)**	**(183)**	**(1 070)**	**(258)**	**(5 546)**	**(7 100)**
Net book value as at 31 December 2009[b][c][d]	**81**	**797**	**2 489[e]**	**467**	**9 408**	**13 242**

	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 2008	94	644	2 230	432	8 780	12 180
Additions	3	75	155	163	1 797	2 193
Business combinations	–	–	7	13	160	180
Disposals, transfers and other movements[a]	(1)	(3)	(40)	(103)	215	68
Currency translation adjustments	12	33	649	41	2 173	2 908
Cost as at 31 December 2008	**108**	**749**	**3 001**	**546**	**13 125**	**17 529**
Accumulated depreciation as at 1 January 2008	(38)	(84)	(500)	(196)	(3 936)	(4 754)
Charge for the year	(2)	(24)	(119)	(57)	(674)	(876)
Charge for impairment (see note 5 page 30)	–	–	(19)	–	–	(19)
Disposals and transfers	–	–	28	96	–	124
Currency translation adjustments	(1)	(8)	(104)	(21)	(582)	(716)
Accumulated depreciation as at 31 December 2008	**(41)**	**(116)**	**(714)**	**(178)**	**(5 192)**	**(6 241)**
Net book value as at 31 December 2008[b][c][d]	**67**	**633**	**2 287[e]**	**368**	**7 933**	**11 288**

(a) Includes within exploration and production a transfer from other intangible assets of £650m (2008 £57m) and an increase in the decommissioning asset of £66m (2008 £158m) and £157m of certain trade receivables used as part consideration for the acquisition of non current assets Also includes the exchange of equity interests in certain North Sea production assets

(b) The Group s Net book value includes capitalised interest of £230m (2008 £217m) comprising Exploration and production £151m (2008 £145m) and Plant and machinery £79m (2008 £72m) A deferred tax liability is recognised in respect of this taxable temporary difference at current enacted rates

(c) Includes the net book value of decommissioning assets of £380m (2008 £358m) and expenditure on Plant and machinery and Exploration and production assets under construction of £2 022m (2008 £2 155m)

(d) Assets capitalised and held under finance leases included in Plant and machinery are

As at 31 December	2009 £m	2008 £m
Cost	1 324	1 417
Accumulated depreciation	(220)	(217)
Net book value	**1 104**	**1 200**

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

As at 31 December	2009 £m	2008 £m
Cost	193	190
Accumulated depreciation	(107)	(88)
Net book value	**86**	**102**

The depreciation charge for the year relating to these assets was £19m (2008 £16m)

13 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 1 January 2009	300	278	386	656	11	1 631
Investments	193	51	5	45	–	294
Disposals, transfers and other loan movements	–	(11)	–	(20)	–	(31)
Share of retained profits less losses during the year[a]	9	–	50	–	–	59
Currency translation adjustments and fair value movements	(21)	(1)	(40)	(68)	5	(125)
Carrying value as at 31 December 2009	**481**	**317**	**401**	**613**	**16[b]**	**1 828**

	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 1 January 2008	262	209	236	449	1	1 157
Investments	46	31	9	130	5	221
Business combinations	–	–	–	–	5	5
Disposals transfers and other loan movements	(48)	37	38	(66)	–	(39)
Share of retained profits less losses during the year[a]	(9)	–	16	–	–	7
Currency translation adjustments and fair value movements	49	1	87	143	–	280
Carrying value as at 31 December 2008	300	278	386	656	11[b]	1 631

(a) Comprises share of post tax results for the year of £204m (2008 £158m) offset by share of dividends receivable by the Group of £145m (2008 £151m)
(b) Includes an available-for sale investment in Victoria Petroleum NL

During the year ended 31 December 2008, the Group acquired Queensland Gas Company Limited which owns a 16 73% interest in Victoria Petroleum NL a company listed on the Australian Securities Exchange This investment is classified as an available-for-sale financial asset and is measured at fair value, with movements in fair value recognised in equity The fair value of the investment has been determined by reference to quoted market prices As at 31 December 2009, the fair value of this investment was £10m (2008 £5m)

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		2009 £m	2008 £m	2009 £m	2008 £m
Share of assets	– non-current assets	**1 019**	818	**1 492**	1 458
	– current assets	**177**	191	**275**	314
		1 196	1 009	**1 767**	1 772
Share of liabilities	– current liabilities	**(149)**	(125)	**(169)**	(270)
	– non-current liabilities	**(566)**	(584)	**(1 197)**	(1 116)
		(715)	(709)	**(1 366)**	(1 386)
Share of net assets		**481**	300	**401**	386
for the year ended 31 December					
Share of revenue		**366**	307	**656**	791
Share of operating costs		**(271)**	(222)	**(421)**	(627)
Share of operating profit		**95**	85	**235**	164
Share of finance costs		**(18)**	(18)	**(29)**	(34)
Share of tax		**(23)**	(20)	**(56)**	(19)
Share of post-tax results		**54**	47	**150**	111

Further information on principal subsidiary undertakings, joint ventures and associates is given in note 27, page 53

Notes to the accounts continued

14 INVENTORIES

	2009 £m	2008 £m
Raw materials and consumables	273	248
Finished goods for resale	203	314
	476	562

15 TRADE AND OTHER RECEIVABLES

	2009 £m	2008 £m
Amounts falling due within one year		
Trade receivables	1 263	1 340
Amounts owed by parent undertaking	48	55
Amounts owed by joint ventures and associates (see note 24 page 48)	22	50
Other receivables	300	358
Prepayments and accrued income	1 338	1 868
	2 971	3 671
Amounts falling due after more than one year		
Other receivables	52	66
Prepayments and accrued income	26	29
	78	95
Total receivables	3 049	3 766

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

	2009 £m	2008 £m
Provision as at 1 January	32	17
Charge for the year	10	13
Transfers and other adjustments	–	2
Provision as at 31 December	42	32

As at 31 December 2009, £204m (2008 £230m) of trade and other receivables were past due but not provided for, and an analysis of these receivables is as follows

	2009 £m	2008 £m
Less than 3 months past due	109	95
Between 3 and 6 months past due	24	97
Between 6 and 12 months past due	35	9
More than 12 months past due	36	29
	204	230

16 CASH AND CASH EQUIVALENTS

	2009 £m	2008 £m
Cash at bank and in hand	298	334
Cash equivalent investments	394	698
	692	1 032

Cash and cash equivalents comprise cash in 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 2009 were between nil and 5 2% (2008 0 01% and 8 8%) For further information on the interest rate composition of the Group's financial assets see note 18, page 38

17 BORROWINGS

Details of the Group's financing and financial risk factors are disclosed on page 10

	2009 £m	2008 £m
Amounts falling due within one year		
Commercial paper and bonds	**492**	48
Bank loans and overdrafts	**208**	219
Obligations under finance leases	**17**	14
	717	281
Amounts falling due after more than one year		
Bonds and other loans	**1 529**	339
Bank loans	**368**	286
Obligations under finance leases	**1 214**	1 272
	3 111	1 897
Gross borrowings	**3 828**	2 178

As at 31 December 2009, Comgás had pledged trade receivables of £14m (2008 £13m) 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

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	2009 £m	2008 £m	2009 £m	2008 £m
Within one year	**16**	13	**717**	281
Between one and two years	**19**	14	**120**	82
Between two and three years	**21**	15	**385**	82
Between three and four years	**20**	15	**766**	351
Between four and five years	**24**	17	**91**	71
After five years	**899**	385	**1 749**	1 311
	999	459	**3 828**	2 178

For the purpose of the table above debt with an initial 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 swaps that are designated as fair value or cash flow hedges of interest rate risk The disclosure above is presented after the effect of these swaps Further information on the fair value of the swaps is included in note 18 page 38

The effective post-swap interest rates as at 31 December 2009 were between 0 2% and 11% (2008 4% and 17%) For amounts falling due within one year the effective post-swap interest rates were between 0 2% and 9% (2008 4% and 17%) Post swap fixed rate borrowings mature between 2011 and 2037 (2008 mature between 2009 and 2028) and the interest rates are not subject to re-pricing prior to maturity

Obligations under finance leases	Minimum lease payments		Obligations under finance leases	
Amounts due	2009 £m	2008 £m	2009 £m	2008 £m
Within one year	**64**	93	**17**	14
Between one and five years	**313**	341	**82**	77
After five years	**1 806**	1 938	**1 132**	1 195
Less future finance charges	**(952)**	(1 086)	**–**	–
	1 231	1 286	**1 231**	1 286

The Group has finance lease obligations in respect of LNG ships and infrastructure These lease obligations expire between 2024 and 2037 (2008 expire between 2024 and 2037)

Notes to the accounts continued

17 BORROWINGS continued

CURRENCY COMPOSITION OF THE GROUP'S BORROWINGS

The following table analyses the currency composition of the Group's borrowings

	2009 £m	2008 £m
Currency		
Pound Sterling	**1 029**	528
US Dollar	**1 482**	1 151
Euro	**723**	52
Brazilian Real	**561**	397
Other	**33**	50
	3 828	2 178

The disclosure above does not include the impact of certain currency swaps as these are separately recognised under IAS 39 and presented in note 18 below As at 31 December 2009 the Group had swapped £526m (2008 £528m) of Pounds Sterling borrowings into US Dollars, £671m (2008 nil) of Euro borrowings into Pounds Sterling, £44m (2008 £nil) of Euro borrowings into US Dollars £7m (2008 £55m) of US Dollar borrowings into Brazilian Reais and £30m (2008 £48m) of other currencies into US Dollars

COMPOSITION OF THE GROUP'S UNDRAWN COMMITTED FACILITIES

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

	2009 £m	2008 £m
Expiring		
Within one year	**232**	922
Between one and two years	**675**	–
Between two and three years	**644**	–
Between three and four years	**–**	723
After five years	**177**	78
	1 728	1 723

18 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 derivatives to manage the composition of floating and fixed rate debt The Group enters into currency derivatives 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 to enter into interest or exchange rate derivatives only where these are matched by an underlying asset, liability or transaction

Further information on treasury risks can be found on page 10

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 fall within the scope of IAS 39 These contracts include pricing terms which are based on a variety of commodities and indices They are recognised in the balance sheet at fair value with movements in fair value recognised in the income statement

18 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 8

AMOUNTS RECOGNISED IN RESPECT OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

	2009		2008	
Included on the balance sheet	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate derivatives	91	(14)	19	–
Currency exchange rate derivatives	405	(317)	988	(744)
Cross-currency interest rate derivatives	26	(12)	7	(97)
Long-term UK gas contracts	–	(189)	–	(242)
Other commodity derivatives	868	(855)	1 459	(898)
	1 390	(1 387)	2 473	(1 981)

In addition to the above, the Group held non-derivative available-for-sale financial assets of £10m (2008 £5m) which are recognised in the balance sheet at fair value

As at 31 December 2009, the Group had deposited cash of £152m (2008 £119m) and received cash of £57m (2008 £203m) in respect of collateral and margin payments associated with the use of commodity derivatives

Derivative financial instruments classified as held-for-trading are presented within current assets and current liabilities All other derivative financial instruments are classified as current or non-current according to the remaining maturity of the derivative

	2009		2008	
Expiring	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Within one year	1 013	(861)	1 538	(1 453)
Between one and five years	310	(484)	935	(528)
After five years	67	(42)	–	–
	1 390	(1 387)	2 473	(1 981)

The notional principal amounts of derivative financial instruments are as follows

	2009				2008			
Expiring	Within one year £m	Between one and five years £m	After five years £m	Total £m	Within one year £m	Between one and five years £m	After five years £m	Total £m
Interest rate derivatives	5	932	945	1 882	–	250	–	250
Currency exchange rate derivatives	3 735	2 078	–	5 813	3 297	2 703	–	6 000
Cross-currency interest rate derivatives	6	940	222	1 168	97	290	200	587
Other commodity derivatives	24 215	9 987	621	34 823	29 192	12 072	140	41 404

The notional principal amounts of long-term UK gas contracts are £285m (2008 £363m) The amounts in respect of other commodity derivatives represent the gross combination of notional principals relating to all purchase and sale contracts and accordingly do not show the extent to which these contracts may offset 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

18 FINANCIAL INSTRUMENTS continued

VALUATION

All financial instruments that are initially recognised and subsequently re-measured at fair value have been classified in accordance with the hierarchy described in IFRS 7 'Financial Instruments Disclosures'

Fair value measurement hierarchy

The fair value hierarchy, described below, reflects the significance of the inputs used to determine the valuation

Level 1 fair value measurements are those derived directly from quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 fair value measurements are those including inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly The fair value of the Group's interest rate and currency exchange rate derivatives and the majority of the Group's commodity derivatives are calculated from relevant market yield curves at the balance sheet date and are therefore based solely on observable price information These instruments are not directly quoted in active markets and are accordingly classified as level 2 in the fair value hierarchy

Level 3 fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability that are not based on observable market data

Where observable market valuations are unavailable, the fair value on initial recognition is the transaction price and is subsequently determined using the Group s forward planning assumptions for the price of gas, other commodities and indices Due to the assumptions underlying their fair value, long-term UK gas contracts are categorised as Level 3 in the fair value hierarchy One of the assumptions used for their valuation is that the gas market in the UK is liquid for two years As at 31 December 2009, the average two year forward price for UK gas was 42p per therm (2008 57p per therm) Beyond this period a seasonally adjusted UK gas price of 45p per therm (2008 45p per therm) has been used along with an electricity price of £45 per megawatt hour (2008 £45 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 credited to the income statement in the year was £53m (2008 £131m)

As at 31 December 2009, the potential change in the fair value of long-term UK commodity contracts, assuming changes in the price assumptions of gas (15 pence per therm), Brent ($10 per bbl) and electricity (£15 per megawatt hour), was £72m (2008 £79m)

	Financial assets				Financial liabilities			
as at 31 December 2009	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Interest rate derivatives	–	91	–	**91**	–	(14)	–	**(14)**
Currency exchange rate derivatives	–	405	–	**405**	–	(317)	–	**(317)**
Cross-currency interest rate derivatives	–	26	–	**26**	–	(12)	–	**(12)**
Long-term UK gas contracts	–	–	–	–	–	–	(189)	**(189)**
Other commodity derivatives	5	852	11	**868**	(27)	(818)	(10)	**(855)**
	5	**1 374**	**11**	**1 390**	**(27)**	**(1 161)**	**(199)**	**(1 387)**

As at 31 December 2009, the Group also held available-for-sale financial assets of £10m (2008 £5m), the fair value of which is determined using Level 1 fair value measurements

Level 3 fair value measurements

The movements in the year associated with financial assets and liabilities, measured at fair value and determined in accordance with Level 3, is shown below

	Long term UK gas contracts £m	Other commodity derivatives £m	Total £m
Fair value as at 1 January 2009	(242)	32	**(210)**
Total gains or losses recognised in profit or loss	(8)	(13)	**(21)**
Reclassification to Level 2	–	(3)	**(3)**
Settlements	61	(15)	**46**
Fair value as at 31 December 2009	**(189)**	**1**	**(188)**

Total gains and losses recognised in profit or loss are presented in Other operating income All of the gains or losses for the period are related to financial assets and liabilities held at 31 December 2009 A reasonably possible change in the valuation assumptions underlying other commodity derivatives above would not significantly change their fair value measurement

18 **FINANCIAL INSTRUMENTS** continued

FAIR VALUE ADJUSTMENTS ON FINANCIAL INSTRUMENTS

Included in the income statement[a]	2009 £m	2008 £m
Interest rate and exchange rate derivatives not in a designated hedge relationship	**72**	(80)
Interest rate derivatives designated as fair value hedges	**(8)**	19
Cross-currency interest rate derivatives designated as fair value hedges	**17**	13
Commodity derivatives designated as fair value hedges	**34**	(71)
Ineffectiveness on cash flow hedges	**–**	1
Ineffectiveness on net investment hedges	**(2)**	(3)
Long-term UK gas contracts (see note 2, page 19)	**53**	131
Other commodity derivatives not in a designated hedge relationship	**(9)**	70
	157	80

(a) Includes £40m credit (2008 £28m credit) recognised as Other operating income within Business Performance

Fair value gains of £5m (2008 £nil) on available-for-sale financial assets are included within equity For further information see note 13, page 35

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 8

Fair value Hedges

As at 31 December 2009, 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 Group also held a number of commodity derivatives designated as hedges of the fair value risk associated with fixed price firm sales commitments The hedged items and the related derivatives 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 2009 is £3m (2008 £(36)m) During 2009 adjustments of £(42)m (2008 £50m) have been made to hedged items in respect of the risks being hedged

Cash flow Hedges

The Group has forward commodity contracts, currency exchange rate derivatives and interest rate derivatives designated as hedges of highly probable forecast purchases and sales, and of interest flows on floating rate debt As at 31 December 2009 an unrealised pre-tax gain of £69m (2008 £750m gain) was deferred in equity in respect of effective cash flow hedges The hedged transactions are expected to occur within 28 years (2008 three 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 crystallises As at 31 December 2009, deferred pre-tax gains of £176m (2008 £397m 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 2009 is £(221)m (2008 £745m), these amounts exclude dedesignated cash flow hedges During 2009, certain forecast commodity sales for which cash flow hedge accounting was used were no longer expected to occur This resulted in the transfer of an unrealised pre-tax gain of £43m from equity to the income statement The related cash flow hedges were discontinued prospectively

Page 15 identifies the amounts that have been transferred from equity in respect of transactions completed during the year These items are reported within the income statement or non-current assets to match against the underlying transaction

Hedges of net investments in foreign operations

As at 31 December 2009, certain borrowings and currency derivatives have been designated as hedges of the currency risk associated with net investments in foreign operations The portion of gains or losses on the hedging instruments determined to be an effective hedge are transferred to equity to offset the gains and losses arising on the retranslation of net investments in foreign subsidiaries The pre-tax loss on effective hedging instruments deferred within equity as at 31 December 2009 is £74m (2008 £92m) The fair value of financial instruments designated as hedges of net investments in foreign operations outstanding as at 31 December 2009 is £452m (2008 £(37)m)

Notes to the accounts continued

18 FINANCIAL INSTRUMENTS continued

FINANCIAL ASSETS (EXCLUDING SHORT-TERM RECEIVABLES)

The Group's financial assets consist of cash and cash equivalents of £692m (2008 £1 032m), loans made to joint ventures and associates of £930m (2008 £934m), available-for-sale assets of £10m (2008 £5m), other long-term investments of £6m (2008 £6m) and receivables due after more than one year of £48m (2008 £51m)

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

	2009				2008			
	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								
Pound Sterling	77	12	244	333	73	211	208	492
US Dollar	40	1 034	28	1 102	45	1 074	45	1 164
Other	–	229	22	251	–	357	15	372
	117	1 275	294	1 686	118	1 642	268	2 028

The effective interest rates on the loans to joint ventures and associates as at 31 December 2009 were between 0% and 9 95% (2008 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 Periodic interest rate determinations in respect of other floating rate financial assets generally comprise London Interbank Offered Rate (LIBOR) plus or minus an agreed margin As at 31 December 2009, £62m (2008 £73m) of fixed rate loans to joint ventures and associates expire in 2016 (2008 expire in 2016) and have effective interest rates of between 7 25% and 9 95% (2008 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 2009, £40m (2008 £45m) of fixed rate receivables due after more than one year expire between 2011 and 2015 (2008 expire between 2011 and 2015) and have effective interest rates of 6% (2008 6%)

FAIR VALUES OF OTHER FINANCIAL INSTRUMENTS

The following financial instruments are measured at historic or amortised cost

	2009		2008	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial instruments held or issued to finance the Group s operations				
Short-term borrowings	(717)	(717)	(281)	(281)
Long-term borrowings	(3 111)	(3 186)	(1 897)	(2 077)
Cash and cash equivalents	692	692	1 032	1 032
Short-term receivables	1 585	1 585	1 748	1 748
Short-term creditors	(691)	(691)	(809)	(809)
Amounts owed to parent undertaking	(2 856)	(2 856)	(1 204)	(1 204)
Amounts owed by parent undertaking	48	48	55	55
Other financial liabilities	(32)	(32)	(29)	(29)
Other financial assets	994	1 006	996	1 011

The fair value of cash and cash equivalents (current asset investments and cash at bank and in hand), short-term receivables 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 relevant 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 is linked to the performance of the individual joint venture or associate and other considerations 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, and credit and liquidity risk A description of these principal risks is outlined on page 10 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

18 **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 2009	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	(821)	(263)	(1 590)	(2 529)	(5 203)
Short-term creditors and amounts owed to parent undertaking	(3 547)	–	–	–	(3 547)
Other financial liabilities	–	–	–	(32)	(32)
	(4 368)	(263)	(1 590)	(2 561)	(8 782)
Outflows from derivative financial instruments					
Currency exchange and cross-currency interest rate derivatives	(3 829)	(1 619)	(1 536)	(550)	(7 534)
Gross settled commodity derivatives	(1 264)	(320)	(88)	–	(1 672)
Net settled commodity derivatives	(318)	(123)	(91)	–	(532)
	(5 411)	(2 062)	(1 715)	(550)	(9 738)
Non-derivative financial assets and inflows from derivative financial instruments	8 724	2 906	2 771	2 068	16 469
Total as at 31 December 2009	**(1 055)**	**581**	**(534)**	**(1 043)**	**(2 051)**

as at 31 December 2008	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	(433)	(283)	(780)	(1 993)	(3 489)
Short-term creditors and amounts owed to parent undertaking	(2 013)	–	–	–	(2 013)
Other financial liabilities	–	–	–	(29)	(29)
	(2 446)	(283)	(780)	(2 022)	(5 531)
Outflows from derivative financial liabilities					
Interest rate derivatives					
Currency exchange and cross currency interest rate derivatives	(3 829)	(1 918)	(1 548)	(817)	(8 112)
Gross settled commodity derivatives	(1 502)	(741)	(253)	–	(2 496)
Net settled commodity derivatives	(167)	(87)	(25)	–	(279)
	(5 498)	(2 746)	(1 826)	(817)	(10 887)
Non-derivative financial assets and inflows from derivative financial instruments	9 640	4 039	2 802	1 772	18 253
Total as at 31 December 2008	**1 696**	**1 010**	**196**	**(1 067)**	**1 835**

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 2009, the Group's maximum credit risk exposure (after the impact of any netting arrangements) under interest rate related derivatives was £71m (2008 £19m), currency derivatives £160m (2008 £271m) and commodity related derivatives £396m (2008 £937m) The Group's credit risk exposure under short-term receivables 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

Notes to the accounts continued

18 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 Pounds Sterling exchange rates, UK and US gas prices and Japan Crude Cocktail (JCC) and Brent oil 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

	Market movement		Business Performance		Disposals re-measurements and impairments		Equity	
	2009	2008	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
UK interest rates	**+ 150 basis points**	+ 150 basis points	**(37)**	(11)	**11**	(8)	**–**	10
US interest rates	**+ 100 basis points**	+ 100 basis points	**(2)**	(3)	**(10)**	4	**33**	(9)
US$/UK£ exchange rates	**+ 20 cents**	+ 20 cents	**(22)**	(25)	**(96)**	6	**15**	(58)
UK gas prices	**+ 15 pence/therm**	+ 15 pence/therm	**(3)**	(3)	**(217)**	(37)	**–**	(133)
US gas prices	**+ 1 US$/mmbtu**	+ 1 US$/mmbtu	**(7)**	(11)	**81**	–	**21**	167
JCC/Brent prices	**+ 10 US$/bbl**	+ 10 US$/bbl	**–**	–	**–**	–	**(202)**	(98)

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 and

(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

19 TRADE AND OTHER PAYABLES

	2009 £m	2008 £m
Amounts falling due within one year		
Trade payables	**489**	579
Amounts owed to parent undertaking	**2 856**	1 204
Amounts owed to joint ventures and associates (see note 24, page 48)	**13**	38
Other payables[a]	**189**	192
Accruals and deferred income	**1 887**	2 810
	5 434	4 823
Amounts falling due after more than one year		
Other payables	**32**	29
Accruals and deferred income	**7**	9
	39	38
Total payables	**5 473**	4 861

(a) Includes £27m (2008 £25m) relating to cash settled share based payment transactions of which £13m (2008 £13m) relates to awards that have already vested and £77m (2008 £84m) for bonuses provided in 2009 for payments to eligible employees under bonus schemes including the BG Group Annual Incentive Scheme (AIS)

20 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Decommissioning		Other		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
As at 1 January	**682**	429	**245**	233	**927**	662
Charge for the year	**–**	–	**17**	18	**17**	18
Unwinding of discount	**26**	22	**7**	7	**33**	29
Additions	**66**	103	**–**	3	**66**	106
Change in discount rate	**–**	55	**–**	–	**–**	55
Business combinations	**–**	5	**–**	9	**–**	14
Foreign exchange and other adjustments	**(52)**	70	**1**	6	**(51)**	76
Amounts used	**(6)**	(2)	**(24)**	(28)	**(30)**	(30)
Unused provisions credited to the income statement	**(1)**	–	**(9)**	(3)	**(10)**	(3)
As at 31 December	**715**	682	**237**	245	**952**	927

Provisions falling due within one year amount to £53m (2008 £31m)

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 2043

OTHER

A provision for onerous contracts was recognised in 2007 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

The balance as at 31 December 2009 includes restructuring costs arising from the renegotiation of power purchase agreements at Premier Power Limited of £13m (2008 £14m), field-related payments of £4m (2008 £7m), insurance costs of £22m (2008 £19m), provisions for onerous contracts £135m (2008 £152m) and costs associated with acquisitions and disposals of £15m (2008 £15m) The payment dates are uncertain but are expected to be between 2010 and 2018

21 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

	2009 £m	2008 £m
As at 1 January	**1 984**	1 179
Business combinations	**–**	(2)
Charge for the year	**122**	252
(Credit)/charge on fair value movements on hedges taken to equity	**(186)**	202
(Credit)/charge to equity in respect of share-based payments	**(1)**	20
Currency translation adjustments and other movements	**(119)**	333
As at 31 December	**1 800**	1 984

An analysis of the movements in deferred tax assets and liabilities is shown on page 46 of this report 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

Notes to the accounts continued

21 DEFERRED TAX continued

	Accelerated capital allowances £m	Deferred petroleum revenue tax £m	Provisions £m	Retirement benefit obligations £m	Unused tax losses £m	Unremitted earnings £m	Other temporary differences £m	Total £m
Deferred tax assets								
As at 1 January 2008	–	–	–	(38)	–	–	(41)	(79)
Business combinations	–	–	(4)	–	–	–	–	(4)
Charge/(credit) for the year	(17)	–	–	(3)	–	–	–	(20)
Charge/(credit) to equity	–	–	–	–	–	–	20	20
Currency translation adjustments and other movements	9	–	1	1	–	–	–	11
As at 31 December 2008	(8)	–	(3)	(40)	–	–	(21)	(72)
Charge/(credit) for the year	(74)	–	3	3	–	–	3	(65)
Charge/(credit) to equity	–	–	–	–	–	–	(1)	(1)
Currency translation adjustments and other movements	13	–	9	–	–	–	(20)	2
As at 31 December 2009	**(69)**	**–**	**9**	**(37)**	**–**	**–**	**(39)**	**(136)**
Deferred tax liabilities								
As at 1 January 2008	1 484	64	(152)	–	(31)	3	(110)	1 258
Business combinations	–	–	2	–	–	–	–	2
Charge/(credit) for the year	321	18	(45)	(1)	(67)	4	42	272
Charge/(credit) to equity	–	–	–	–	–	–	202	202
Currency translation adjustments and other movements	317	–	13	(11)	(2)	–	5	322
As at 31 December 2008	2 122	82	(182)	(12)	(100)	7	139	2 056
Charge/(credit) for the year	971	2	(37)	(1)	(846)	(7)	105	187
Charge/(credit) to equity	–	–	–	–	–	–	(186)	(186)
Currency translation adjustments and other movements	(147)	–	(14)	(2)	1	–	41	(121)
As at 31 December 2009	**2 946**	**84**	**(233)**	**(15)**	**(945)**	**–**	**99**	**1 936**
Net deferred tax liability as at 31 December 2009	**2 877**	**84**	**(224)**	**(52)**	**(945)**	**–**	**60**	**1 800**
Net deferred tax liability as at 31 December 2008	2 114	82	(185)	(52)	(100)	7	118	1 984

The amount of the deferred tax asset of £136m (2008 £72m) expected to be recovered after more than 12 months is £121m (2008 £57m) The deferred tax liability of £1 936m (2008 £2 056m) is shown after the offset of certain deferred tax assets relating to the same fiscal authority, the liability prior to such offset is £3 271m (2008 £2 613m) The net amount expected to be settled after more than 12 months is £1 962m (2008 £2 163m)

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 £2 877m (2008 £2 488m) 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 £700m (2008 £334m) and unrecognised tax losses of £1 021m (2008 £631m) to carry forward against future taxable income To the extent unutilised, £150m of these losses will expire by 2014 In addition, the Group has unrecognised capital losses of £202m (2008 £249m), these tax losses can only be offset against specific types of future capital gains The Group also has unrecognised overseas tax credits of £426m (2008 £383m)

22 CALLED UP SHARE CAPITAL

	Allotted and fully paid up			
	2009 Number of shares m	2008 Number of shares m	2009 £m	2008 £m
Equity				
Ordinary shares of £1 each	**2 898**	2 898	**2 898**	2 898

23 COMMITMENTS AND CONTINGENCIES

A) CAPITAL EXPENDITURE

As at 31 December 2009 the Group had contractual commitments for future capital expenditure amounting to £3 690m (2008 £3 671m)
As at 31 December 2009, the Group s joint ventures and associates had placed contracts for capital expenditure, the Group's share of which amounted to £57m (2008 £148m), of which £3m (2008 £14m) is guaranteed by the Group

At 31 December 2009, the Group had entered into commitments under finance leases commencing after that date of £617m (2008 £431m)

B) DECOMMISSIONING COSTS ON DISPOSED ASSETS

BG 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 The amounts of future costs associated with these contingent liabilities could be significant The Group has obtained indemnities and/or letters of credit against the estimated amount of certain of these potential liabilities

C) FUTURE EXPLORATION AND DEVELOPMENT COSTS

As at 31 December 2009 certain petroleum licences and contractual agreements in which the Group has an interest, contained outstanding obligations to incur exploration and development expenditure, some of which were firm commitments and others contingent The uncontracted cost attributable to the Group in respect of these commitments is estimated to be £899m (2008 £457m)

D) LEASE COMMITMENTS

Commitments under operating leases as at 31 December were as follows

	Land and buildings		Other		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Amounts due						
Within one year	**31**	38	**144**	223	**175**	261
Between one and five years	**88**	92	**171**	307	**259**	399
Later than five years	**128**	172	**5**	12	**133**	184
Total commitments under operating leases	**247**	302	**320**	542	**567**	844

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 2014 (2008 2014) The Group sub-leases one of its LNG ships to third parties (2008 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 £1m at 31 December 2009 (2008 £9m)

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 2009 were £114m (2008 £172m) split between amounts due within one year £29m (2008 £34m), amounts due between one and five years £54m (2008 £94m) and amounts due over five years £31m (2008 £44m)

E) LEGAL PROCEEDINGS

Criminal charges have been brought in Italy against certain former employees and consultants of BG Group in connection with allegations of improper conduct associated with the authorisation process for the planned Brindisi LNG S p A (Brindisi LNG) regasification terminal BG Italia S p.A (BG Italia), a wholly owned subsidiary of BG Group, has also been charged in relation to some of these allegations under Italian Legislative Decree No 231/2001, an Italian anti-corruption statute which imposes liability on corporate entities under certain circumstances in the event certain criminal acts are committed by management or employees of the company

Charges have also been brought against certain former directors of Brindisi LNG, a wholly owned subsidiary of BG Italia, who are alleged to have 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 The charges in relation to this offence against some of these former directors were extinguished via an Oblazione' granted by the court The decision to grant the 'Oblazione' has been challenged by the Public Prosecutor

The trial in relation to the criminal charges commenced on 4 February 2009 In addition, the Italian authorities may still be carrying out further investigations the scope of which is unknown

The Municipality of Brindisi, Province of Brindisi and Region of Puglia and three groups of environmentalists (Italia Nostra Legambiente and 'World Wildlife Fund' WWF Italia) have separately commenced civil claims seeking damages against the accused individuals and against BG Italia These claims have been brought within the framework of the criminal case

In October 2007, BG 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 BG 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, BG Group commenced the EIA approval process by submitting an EIA The EIA was re-published on 7 August 2009 and BG Group expects to receive the EIA Decree in the first half of 2010

23 COMMITMENTS AND CONTINGENCIES continued

Notwithstanding the EIA approval process BG Group challenged in the administrative courts the October 2007 suspension of the 'Article 8' authorisation The Municipality of Brindisi 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

BG Karachaganak Ltd, as one of the Karachaganak Contracting Companies (KCC) has made claims against the Republic of Kazakhstan (ROK) An arbitration process has been commenced by the KCC and Karachaganak Petroleum Operating B V (KPO) The arbitration relates to certain taxes, fines and penalties paid by KPO and the KCC There is also a dispute in relation to certain unresolved items of expenditure incurred by the KCC which has led to the ROK making certain claims against the KCC The KCC and the ROK are seeking a negotiated solution

It is not practicable at this time to estimate the financial effects indicate the uncertainties relating to the amounts or timing of any economic inflow or outflows nor the possibility of any reimbursements in relation to the legal proceedings detailed above

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

F) OTHER CONTINGENT LIABILITIES

The amount of other contingent liabilities as at 31 December 2009 (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 £977m (2008 £1 083m)
The Group's share of other commitments and contingencies in respect of its joint ventures and associates amounted to £9m (2008 £11m)

24 RELATED PARTY TRANSACTIONS

In the normal course of business the Group provides goods and services to, and receives goods and services from, its joint ventures and associates In the year ended 31 December 2009, the Group received and incurred the following income and charges from these joint ventures and associates

	2009		2008	
	Income £m	Charges £m	Income £m	Charges £m
LNG	**81**	**(521)**	145	(733)
Other	**45**	**(13)**	75	(10)
	126	**(534)**	220	(743)

As at 31 December 2009 a debtor balance of £22m (2008 £50m) (see note 15, page 36) and a creditor balance of £13m (2008 £38m) (see note 19, page 44) were outstanding with these parties

In addition the Group provides financing to some of these parties by way of loans As at 31 December 2009, loans of £930m (2008 £934m) 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 13 page 35 Interest of £21m (2008 £32m) was charged on these loans during the year at interest rates of between 0% and 9 95% (2008 0% and 9 95%) The maximum debt outstanding during the year was £946m (2008 £934m)

A joint venture company provided the Group with a financing arrangement during the year As at 31 December 2009, a loan of £62m was due to the joint venture (2008 £72m) The borrowing is disclosed in note 17, page 37 Interest on the loan of £4m (2008 £0 5m) was payable during the year at an interest rate of 5 8%

The Group has a finance lease arrangement with a joint venture company As at 31 December 2009, the obligation was £95m (2008 £110m) (see note 17 page 37) Interest of £6m (2008 £5m) was paid during the year in respect of this lease The lease expires in 2027

Amounts outstanding between the ultimate parent company, BG Group plc, and the Group as at 31 December 2009 are given in note 15, page 36 and note 19, page 44

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 consistent with others employed in a similar role

25 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 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

Participating employers' contributions are certified by the Scheme's independent qualified actuary For the year ended 31 December 2009, the employers' contribution rate in respect of most Scheme members was effectively 26 9% of pensionable pay up to 31 July 2009 (including Scheme expenses) and 35 2% of pensionable pay thereafter (excluding Scheme expenses which are now met directly by the Company) In addition, 3% of pensionable pay was contributed by most members either directly or by their employer via a salary sacrifice arrangement

A full independent actuarial valuation of the Scheme for funding purposes was completed as at 31 March 2008 This showed that the aggregate market value of the Scheme's assets at 31 March 2008 was £577m, representing some 83% of the accrued liabilities The Group made one payment of £27m in 2009 and intends to make five further payments of £27m in the years to 2014 in order to reduce the Scheme's deficit Aggregate Company contributions for the year ending 31 December 2010 are expected to be £71m

The BG Supplementary Benefits Scheme is available to provide benefits in excess of the 'lifetime allowance' This scheme is an unfunded, unregistered 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 either directly or via salary sacrifice, and the additional 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 The cost of the Plan has been included in the amounts recognised in the consolidated income statement in the table below

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 2009 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

	2009		2008	
	BG plans %	Comgas healthcare plan %	BG plans %	Comgás healthcare plan %
Rate of price inflation and benefit increases[a]	3 9	4 5	3 3	5 0
Future increases in earnings	5 9	n/a	5 3	n/a
Discount rate	5 7	11 2	6 3	13 1
Healthcare cost trend rate	n/a	10 0	n/a	8 1

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

If the discount rate used for the valuation of the BG plans was reduced by 0 1% to 5 6% the defined benefit obligation would increase by £21m and the service cost for 2010 would increase by £2m

Notes to the accounts continued

25 PENSIONS AND POST-RETIREMENT BENEFITS continued

In determining the defined benefit obligation as at 31 December 2009 for the BG plans, mortality assumptions are based on the '00' 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 2009	31 Dec 2019
Male age 60	27 5	28 6
Male age 65	22.6	23 6
Female age 60	30 1	31 0
Female age 65	25 0	26 0

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 £21m and the service cost for 2010 would increase by £1m

As at 31 December 2009 the value of the plans assets and expected rates of return, together with the liabilities in the plans were as follows

	2009			2008		
	Expected rate of return (a) %	Percentage of plans assets %	Value £m	Expected rate of return (a) %	Percentage of plans assets %	Value £m
Equities	8 1	74	493	8 2	58	295
Absolute return strategies	8 1	10	66	8 2	15	73
Index-linked gilts	4 6	5	33	4 3	5	24
Corporate bonds	5 7	10	69	6 3	9	48
Money market funds and cash	4 6	1	4	4 1	13	66
Total market value of assets			665			506
Present value of liabilities			(1 031)			(734)
Deficit in plans			(366)			(228)
Unrecognised net loss			194			50
Net benefit liability			(172)			(178)

(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 0% (a premium of 3 3% over the yield on index-linked gilts) is expected on equities and absolute return strategies The overall expected rate of return as at 31 December 2009 was 7 7%

The actual return on the plans' assets was £104m (2008 £(122)m)

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

	2009 £m	2008 £m
Amounts recognised in the consolidated income statement		
Operating costs		
Current service cost	41	51
Loss on curtailment	3	3
Recognised actuarial loss	(1)	–
Costs in respect of defined contribution scheme	7	3
Total charge to operating costs	50	57
Net finance costs		
Expected return on the plans' assets	(37)	(44)
Interest on the plans' liabilities	49	46
Total charge to finance costs	12	2
Total included within employee costs	62	59

25 PENSIONS AND POST-RETIREMENT BENEFITS continued

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

	2009 £m	2008 £m
Reconciliation of the present value of the Defined Benefit Obligation (DBO)		
Present value of DBO as at 1 January	**734**	792
Movement in year		
Current service cost	**41**	51
Interest cost	**49**	46
Employee contributions	**2**	4
Actuarial losses/(gains)	**209**	(152)
Benefit payments (including expenses)	**(15)**	(12)
Curtailments	**3**	3
Foreign exchange movements	**8**	2
Present value of DBO as at 31 December	**1 031**	734

As at 31 December 2009 £939m of the defined benefit obligation relates to wholly funded defined benefit plans (2008 £670m) and £92m relates to unfunded defined benefit plans (2008 £64m)

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

	2009 £m	2008 £m
Reconciliation of the fair value of the plans' assets		
Fair value of the plans' assets as at 1 January	**506**	591
Movement in year		
Expected return on the plans' assets[a]	**37**	44
Actuarial gains/(losses)	**67**	(166)
Company contributions (including curtailment costs)	**68**	45
Employee contributions	**2**	4
Benefit payments	**(15)**	(12)
Fair value of the plans' assets as at 31 December	**665**	506

(a) Expenses paid are included in expected return on the plans' assets

The history of experience adjustments is as follows

for the year ended 31 December	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Details of experience gains/(losses) for all plans					
Present value of defined benefit obligations	**(1 031)**	(734)	(792)	(727)	(647)
Fair value of the plans assets	**665**	506	591	482	400
Deficit in the plans	**(366)**	(228)	(201)	(245)	(247)
Difference between the expected and actual return on the plans' assets					
Amount (£m)	**67**	(166)	18	19	51
Percentage of the plans' assets (%)	**10 1**	32 8	3 0	3 9	12 8
Experience gains/(losses) on the plans' liabilities					
Amount (£m)	**1**	–	(7)	10	(6)
Percentage of the present value of the plans liabilities (%)	**0 1**	–	0 9	1 4	0 9
Actuarial gains/(losses) on the plans' liabilities					
Amount (£m)	**(209)**	152	24	(5)	(105)
Percentage of the present value of the plans' liabilities (%)	**20 3**	20 7	3 0	0 7	16 2

The projected benefit obligation for the Comgas post-retirement employee benefit plan for healthcare was £54m (2008 £37m) 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 6m or a decrease of £0 5m (2008 £0 6m increase or £0 5m decrease) and on the accumulated post-retirement benefit obligation would be an increase of £6m or a decrease of £5m (2008 £4m increase or decrease)

Notes to the accounts continued

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

CASH GENERATED BY OPERATIONS

	2009 £m	2008 Restated £m
Profit before taxation	**3 609**	5 453
Share of post-tax results of joint ventures and associates	**(204)**	(158)
Depreciation of property, plant and equipment	**1 127**	876
Amortisation of other intangible assets	**4**	4
Fair value movements in commodity contracts	**(111)**	(185)
Profits and losses on disposal of non-current assets and impairments	**446**	24
Unsuccessful exploration expenditure written off	**349**	240
Decrease in provisions for liabilities and retirement benefit obligations	**(43)**	(3)
Finance income	**(67)**	(276)
Finance costs	**214**	235
Share-based payments	**34**	26
Movements in working capital		
Decrease/(increase) in inventories	**70**	(36)
Decrease/(increase) in trade and other receivables	**65**	(571)
(Decrease)/increase in trade and other payables	**(593)**	652
Cash generated by operations	**4 900**	6 281

27 PRINCIPAL SUBSIDIARY UNDERTAKINGS, JOINT VENTURES AND ASSOCIATES

The principal subsidiary undertakings, joint ventures and associates listed are those that 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 during 2010

PRINCIPAL SUBSIDIARY UNDERTAKINGS

as at 31 December 2009	Country of incorporation	Activity	Group holding % (a)
QGC Pty Limited (QGC)	Australia	Exploration and production	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
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 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 Trinidad 5(a) Limited	England	Exploration and production	100 0
BG Tunisia Limited	England	Exploration and production	100 0
Methane Services Limited*	England	LNG shipping	100 0
Gujarat Gas Company Limited	India	Gas distribution	65 1
BG Italia Power S p.A	Italy	Power generation	100 0
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 Alaska E&P, Inc.	USA	Exploration and production	100 0
BG Dighton Power, LLC	USA	Power generation	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
BG US Production Company, LLC	USA	Exploration and production	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 Comgás where the Group s share of net assets is 60 1%

Notes to the accounts continued

27 PRINCIPAL SUBSIDIARY UNDERTAKINGS, JOINT VENTURES AND ASSOCIATES continued

The distribution of the profits of Comgas is 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 is 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 and Norway, BG North Sea Holdings Ltd, which operates in the UK and Algeria, BG LNG Trading, LLC, which operates in the UK and several other countries worldwide, BG Tunisia Limited, which operates in Tunisia, BG Trinidad and Tobago Limited, which operates in Trinidad and Tobago, BG Trinidad 5(a) 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 in the UK and several other countries worldwide, Methane Services Limited, which operates across several countries and BG International Limited which operates in the UK and several other countries worldwide

JOINT VENTURES AND ASSOCIATES

as at 31 December 2009	Country of incorporation and operation	Activity	Issued share capital	Group holding %
Joint ventures[a]				
Dragon LNG Group Limited	England and Wales	LNG regasification	10 000 shares of £0 01	50 0
Seabank Power Limited	England	Power generation	5 280 shares of £1[b]	50 0
Mahanagar Gas Limited	India	Gas distribution	89 341 600 shares of Rupees 10	49 8
First Gas Holdings Corporation	Philippines	Power generation	126 084 100 shares of Peso 10	40 0
TGGT Holdings, LLC	USA	Gas distribution	$40 000 000[c]	50 0
Associates				
BBPP Holdings Ltda	Brazil	Gas distribution	129 000 000 shares of Real 1	33 3
GNL Quintero S.A.	Chile	LNG regasification	1 000 shares of $nil[d]	40 0
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
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

(a) Joint ventures are jointly controlled entities where strategic and operating decisions require unanimous consent of the parties sharing control

(b) 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

(c) TGGT Holdings LLC did not issue share capital instead it granted membership interests and the amount above is based on the total amount equal to the contributions of EXCO Operating Company LP and BG US Gathering Company LLC

(d) Total issued capital is $195 882 353 The shares have no nominal value

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 2009 which comprise the Balance sheet, Principal accounting policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the Directors are responsible for the preparation of the Parent Company Financial Statements and for being satisfied that they give a true and fair view Our responsibility is to audit the Parent Company Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not in giving these opinions, 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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS
An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the Financial Statements

OPINION ON FINANCIAL STATEMENTS
In our opinion the Parent Company Financial Statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006
In our opinion the information given in the Directors' Report for the financial year for which the Parent Company Financial Statements are prepared is consistent with the Parent Company Financial Statements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

OTHER MATTER
We have reported separately on the Group Financial Statements of BG Energy Holdings Limited for the year ended 31 December 2009

Nicholas Blackwood (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
2 June 2010

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 judgements 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 400 of the Companies Act 2006 from the requirement to prepare consolidated accounts under UK GAAP

As permitted by section 408 of the Companies Act 2006, 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

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

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, including investments in Joint Ventures and Associates, 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
Transactions in foreign currencies are translated into pounds Sterling at average rates of exchange Foreign currency monetary assets and liabilities are translated into Pounds Sterling at the rates of exchange ruling at the balance sheet date Differences arising from changes in exchange rates are taken to the profit and loss account in the year in which they arise

CASH AND CASH EQUIVALENTS
Cash and cash equivalents comprise cash in 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

PENSIONS
The majority of 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 10

Derivative financial instruments utilised by the Company are interest rate swaps, currency swaps, cross currency interest rate 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	2009 £m	2008 £m
Fixed assets			
Tangible assets	2	**1**	1
Investments in subsidiary undertakings	3	**15 019**	14 505
Investments in joint ventures	3	**390**	350
Investments in associated undertakings	3	**1**	1
Other investments	3	**1**	1
		15 412	14 858
Current assets			
Debtors amounts falling due within one year	4	**15 120**	5 996
Debtors amounts falling due after more than one year	4	**4 084**	10 065
		19 204	16 061
Investments	5	**269**	580
Cash at bank and in hand		**2**	10
		19 475	16 651
Creditors amounts falling due within one year			
Other creditors	7	**(24 375)**	(27 905)
		(24 375)	(27 905)
Net current liabilities		**(4 900)**	(11 254)
Total assets less current liabilities		**10 512**	3 604
Creditors amounts falling due after more than one year			
Other creditors	7	**(6 903)**	(49)
		(6 903)	(49)
Net assets		**3 609**	3 555
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	**395**	341
BG Energy Holdings shareholder's funds	10	**3 609**	3 555

Commitments and contingencies are shown in note 11, page 61

The accounts on pages 56 to 61 were approved by the Board and signed on its behalf on 28 May 2010 by

Jørn Berget
Director

The accounting policies on page 56 together with the notes on pages 58 to 61 form part of these accounts

Notes to the accounts

1 OPERATING COSTS

Audit fees for the audit of the Company's and the Group s accounts for the year ended 31 December 2009 were £36 000 (2008 £34 000)

2 TANGIBLE FIXED ASSETS

		Motor vehicles and office equipment	
		2009 £m	2008 £m
Cost	as at 1 January and 31 December	1	1
Depreciation	as at 1 January and 31 December	–	–
Net book value 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 2009	72	278	1	–	1	14 505	14 857
Investments	–	51	–	–	–	514	565
Disposals and other adjustments	–	(11)	–	–	–	–	(11)
Carrying value as at 31 December 2009	**72**	**318**	**1**	**–**	**1**	**15 019**	**15 411**

4 DEBTORS

	2009 £m	2008 £m
Amounts falling due within one year		
Amounts owed by group undertakings	**15 008**	5 894
Amounts owed by group undertakings in respect of taxation	**96**	88
Other debtors	**16**	14
	15 120	5 996
Amounts falling due after more than one year		
Amounts owed by group undertakings	**4 055**	10 064
Other debtors	**28**	–
Deferred corporation tax	**1**	1
	4 084	10 065
Total debtors	**19 204**	16 061

5 CURRENT ASSET INVESTMENTS

	2009 £m	2008 £m
Money market and similar current asset investments	**269**	580

6 BORROWINGS

The Company's treasury policy and other borrowings information disclosed on page 10 of this report form part of this note

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

	2009 £m	2008 £m
Expiring		
Within one year	**232**	922
Between two and three years	**1 319**	–
Between three and four years	**–**	723
	1 551	1 645

7 OTHER CREDITORS

	2009 £m	2008 £m
Amounts falling due within one year		
Amounts owed to parent undertaking	**2 856**	1 204
Amounts owed to group undertakings	**21 461**	26 642
Accruals and deferred income	**10**	59
Current tax payable	**45**	–
Other creditors	**3**	–
	24 375	27 905
Amounts falling due after more than one year		
Amounts owed to group undertakings	**6 894**	49
Other creditors	**9**	–
	6 903	49
Total other creditors	**31 278**	27 954

8 FINANCIAL INSTRUMENTS

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

	2009 Book Value £m	2008 Book Value £m	2009 Fair Value £m	2008 Fair Value £m
Interest rate related derivatives	**–**	–	**7**	10
Currency rate related instruments	**23**	(15)	**19**	(21)
Total	**23**	(15)	**26**	(11)

Further information on financial instruments is contained on page 38 of this report

9 SHARE CAPITAL

	2009 Number of shares m	2008 Number of shares m	2009 £m	2008 £m
Allotted and fully paid up				
Equity				
Ordinary shares of £1 each	**2 898**	2 898	**2 898**	2 898

Notes to the accounts continued

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 2008	2 898	316	–	3 214
Transfer from profit and loss account	–	–	1 214	1 214
Dividends	–	–	(873)	(873)
As at 31 December 2008	**2 898**	**316**	**341**	**3 555**
Transfer from profit and loss account	–	–	2 032	2 032
Dividends	–	–	(1 978)	(1 978)
As at 31 December 2009	**2 898**	**316**	**395**	**3 609**

The profit for the financial year, dealt with in the accounts of the Company was £2 032m (2008 £1 214m) As permitted by section 408 of the Companies Act 2006, no profit and loss account is presented for the Company

No final dividend has been proposed by the Directors for 2009 (2008 £nil) An interim dividend of £1 978m was paid on 15 December 2009 (2008 £873m)

11 COMMITMENTS AND CONTINGENCIES

A) CAPITAL EXPENDITURE
As at 31 December 2009, the Company had not placed any contracts for capital expenditure (2008 £nil)

B) LEASE COMMITMENTS
As at 31 December 2009, the Company had no commitments under operating leases (2008 £nil)

C) 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

D) 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 2009, the Sterling equivalent amounted to £3 127m (2008 £1 599m)

E) OTHER CONTINGENT LIABILITIES
The amount of other contingent liabilities as at 31 December 2009 (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 £311m (2008 £613m)

12 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

13 PENSIONS AND POST-RETIREMENT BENEFITS

The Company participates in the BG Pension Scheme (the Scheme) This is a multi-employer, registered defined benefit scheme established under trust In addition, the BG Supplementary Benefits Scheme is available to provide benefits in excess of the lifetime allowance' This scheme is an unfunded, unregistered arrangement (See pages 49 to 51 for further details of the Scheme) The Company is unable to identify its share of underlying assets and liabilities on a consistent and reasonable basis Accordingly it accounts for contributions to the Scheme as if it was a defined contribution scheme under FRS 17 In 2009, contributions to the Scheme relating to the Company's employees were borne by a direct subsidiary and have not been recharged to the Company Therefore, contributions by the Company in 2009 were £nil (2008 £nil)

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 Group plc
100 Thames Valley Park Drive
Reading, Berkshire RG6 1PT
www.bg-group.com

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