BG GROUP

ANNUAL REPORT AND ACCOUNTS 2012

OUR VISION

BG GROUP'S VISION IS TO BE AN INTERNATIONALLY DIVERSIFIED EXPLORATION AND PRODUCTION COMPANY WITH A SPECIALISM IN GAS – OPERATING RESPONSIBLY AND DELIVERING OUTSTANDING VALUE TO OUR SHAREHOLDERS. WE DO THIS BY CONNECTING COMPETITIVELY PRICED RESOURCES TO HIGH-VALUE MARKETS.

PERFORMANCE

TOTAL OPERATING PROFIT*

Total results	Business performance*	
$6 633 m	**$8 047m**	+4%
2011 $7 426m**	2011 $7 732m**	Business performance*

EARNINGS PER SHARE

Total results – continuing operations	Business performance*	
97.5 cents	**129.4 cents**	+3%
2011 120.8 cents**	2011 125.4 cents**	Business performance*

FULL-YEAR DIVIDEND PER SHARE

26.14 cents	**16.67 pence**	+10%
2011 23.76 cents	2011 14.82 pence	Dividend per share – cents

Business review and Legal notice
The Companies Act 2006 (the Act) requires the Board of Directors to produce a directors' report (pages 2 to 79) including a business review (pages 2 to 41) and to obtain an auditors' report (page 82). The Disclosure and Transparency Rules require the Board of Directors to produce a management report (pages 2 to 79). Particular care should be taken when assessing elements of the **Business review** that relate to future developments and the principal risks and uncertainties facing the Group. For the full **Legal notice** see page 145. For a discussion of the **Principal risks and uncertainties** facing the business see pages 32 to 37.

*Business performance excludes discontinued operations, disposals, certain re-measurements and impairments and certain other exceptional items as exclusion of these items provides readers with a clear and consistent presentation of the underlying operating performance of the Group's ongoing business. Unless otherwise stated, financial information for the Group and its business segments presented in the **Business review** is based on BG Group's business performance. Total operating profit includes BG Group's share of pre-tax results from joint ventures and associates. See **Presentation of non-GAAP measures**, page 140. See also **Segmental analysis and results presentation**, note 1, page 93, and **Earnings per ordinary share**, note 9, page 103, for a reconciliation of the differences between business performance and total results.

** 2011 results have been restated to reflect the presentation of the majority of the businesses that comprised the Transmission and Distribution segment as **Discontinued operations** (see note 7, page 102).

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Introducing the Board of Directors and senior management. Our approach to corporate governance and remuneration.

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Cover image
Deepsea Metro I drillship, offshore Tanzania
The DSM1 is a sixth generation dynamic positioning drillship capable of drilling in ultra-deep water. BG Group was involved in the commissioning and development process for the vessel.

Inside cover image
Worker on an LNG tank, Elba Island LNG terminal, Savannah, Georgia, USA
BG Group has a 0.63 billion cubic feet per day capacity at the LNG import facility at Elba Island.

MORE ONLINE

Detailed corporate reports, including the Annual Report and Accounts, BG Group Data Book and the Sustainability Report, can be found online at **www.bg-group.com/reports**

FURTHER INFORMATION

Links to further information are illustrated with the following marker:

FPSO 2 CIDADE DE SÃO PAULO

Capable of producing up to 120 000 barrels of oil per day, this floating production, storage and offloading vessel commenced production on the Sapinhoá field in January 2013.

DIRECTORS' REPORT: BUSINESS REVIEW

An overview of the business, and statements from the Chairman and Chief Executive. Our strategy, how we create value, key performance indicators, business outlook, principal risks facing the business and our approach to sustainability.

WHERE WE OPERATE

BG GROUP HAS INTERESTS IN MORE THAN 20 COUNTRIES ON FIVE CONTINENTS.

BG Group manages its business on an integrated basis across the Americas, Europe, Africa, Central and South Asia, and Australia. In addition, the Group has a Global Energy Marketing and Shipping (GEMS) business unit and a central functional unit, BG Advance.

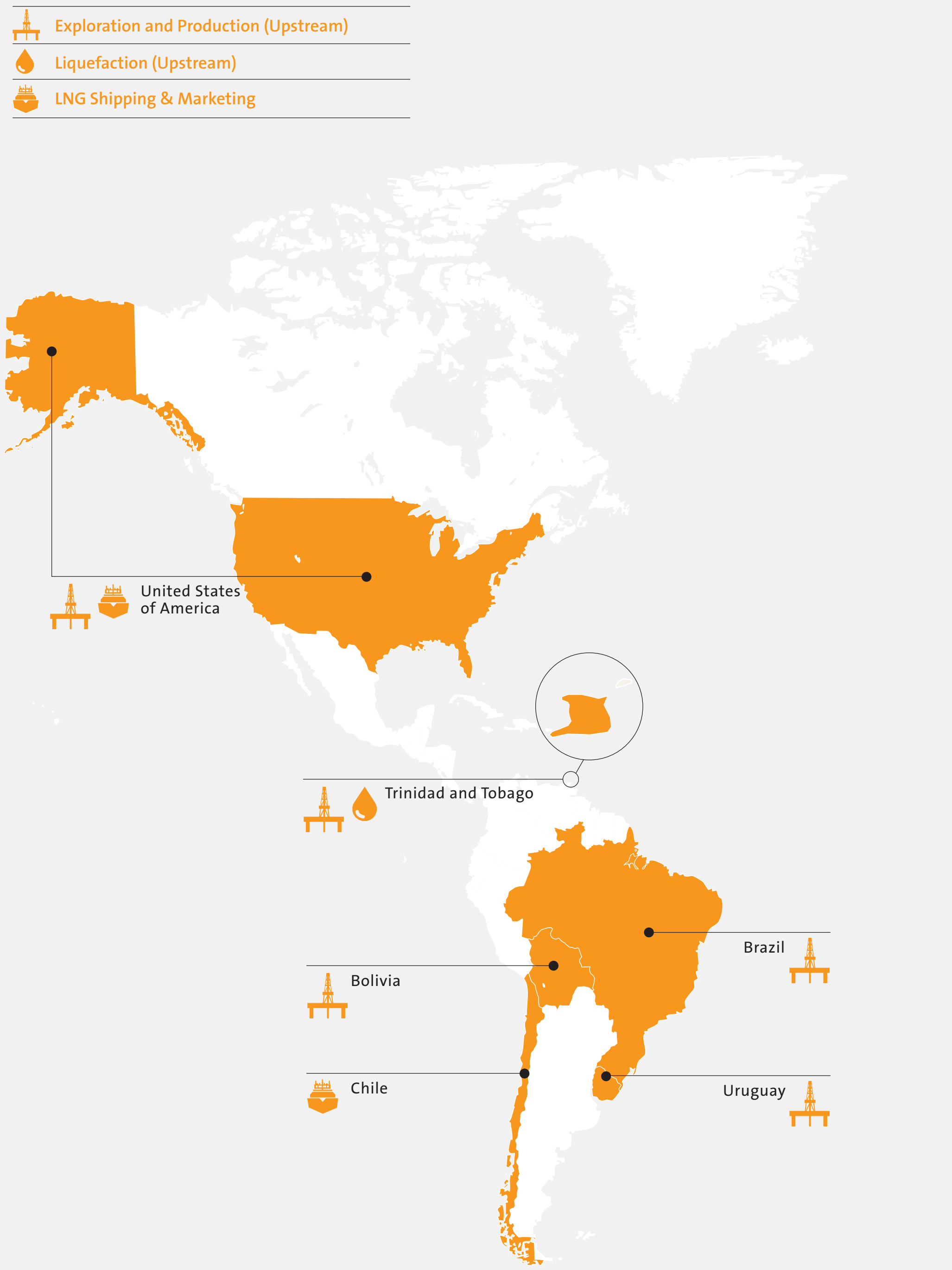
GEMS develops and implements BG Group's strategy for the marketing and optimisation of all commodity streams in support of the Group's overall strategy of connecting competitively priced resources to high-value markets.

BG Advance is the centre of technical capability and expertise for BG Group and supports the Group's assets in seeking to ensure high levels of safety and asset integrity. It also assists in preserving technical standards and commercial governance through assurance, capturing best practice and promoting functional excellence. BG Advance responsibilities also include Group-wide field development planning, project delivery, technology development, IT strategy and delivery, and contracting and procurement services.

Business segments
BG Group has reorganised its business segments such that the previous Exploration and Production (E&P) segment has been combined with the liquefaction operations associated with integrated liquefied natural gas (LNG) projects, previously included in the LNG segment. These now form the Upstream business segment. The remaining businesses comprising the LNG segment, primarily encompassing the marketing and optimisation of LNG, and including interests in regasification plants, have been renamed 'LNG Shipping & Marketing'.

Until the fourth quarter of 2012, Transmission and Distribution (T&D) was a standalone business segment. In light of BG Group's disposal of Comgás and the agreement to sell Gujarat Gas Company Limited during 2012, the Group has discontinued the T&D segment and reallocated the remaining T&D businesses to the Other segment.

For more information see page 28.



UPSTREAM

BG 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 a competitive cost and to maximise the sales value of its hydrocarbons. The Upstream business segment covers exploration and production activities plus liquefaction operations associated with integrated LNG projects.

Total operating profit – business performance*

$5 464m (+0.4%)

2011 $5 440m**

For more information see page 20

LNG SHIPPING & MARKETING

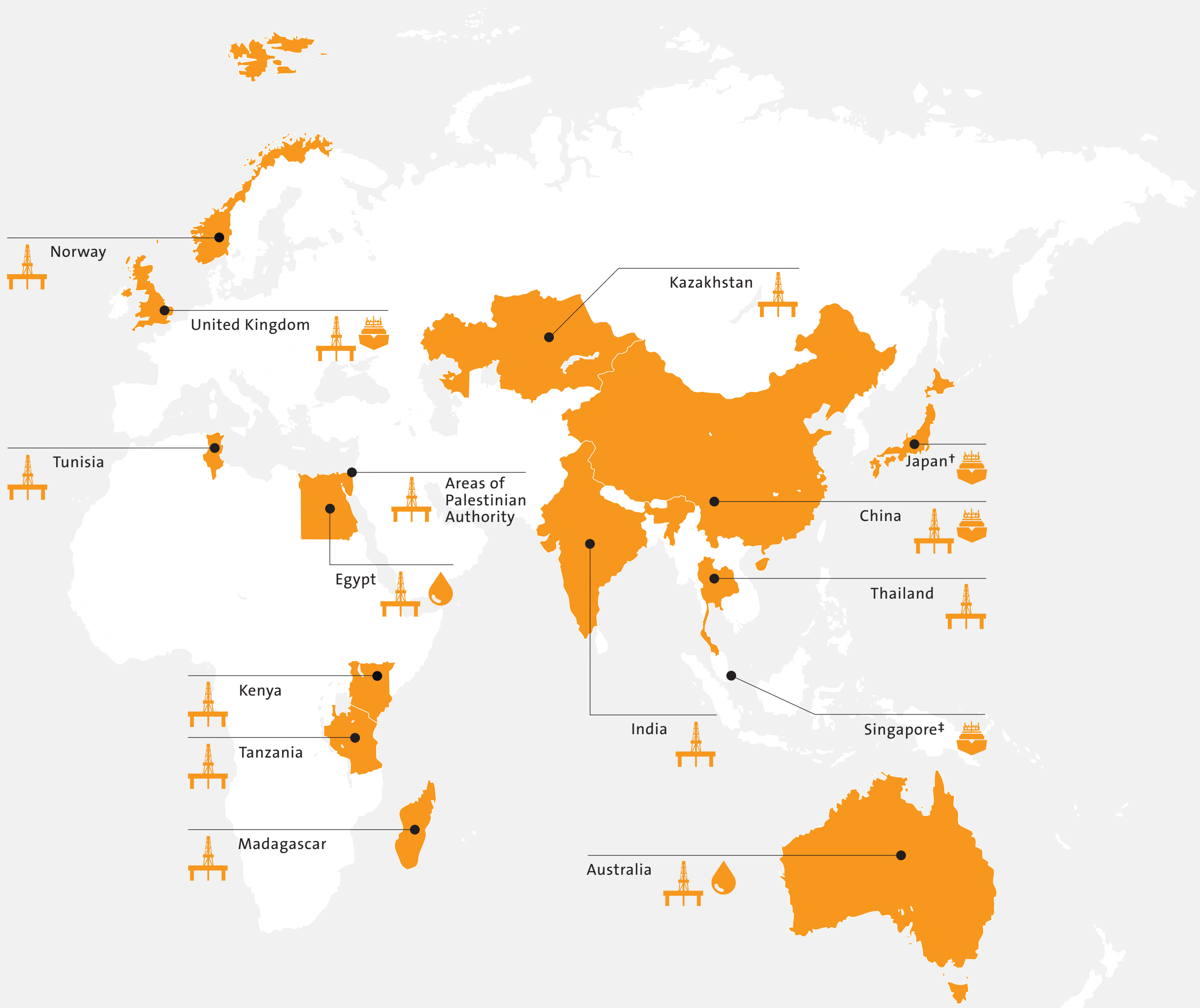
BG Group purchases, ships, markets and sells LNG. The LNG Shipping & Marketing segment covers these activities, as well as the Group's interests and capacity in regasification facilities.

Total operating profit – business performance*

$2 577m (+13%)

2011 $2 282m**

For more information see page 24



* For a reconciliation between business performance and total results, see note 1, page 93 and note 9, page 103.

** 2011 results have been restated to reflect the presentation of the majority of the businesses that comprised the T&D segment as discontinued operations (see note 7, page 102) and the change in the remaining reporting segments from E&P and LNG to Upstream and LNG Shipping & Marketing.

† BG Group's Tokyo office opened in February 2013.

‡ Exclusive right to supply only.

CHAIRMAN'S STATEMENT

ANDREW GOULD
CHAIRMAN

"I would like to congratulate Chris Finlayson on his appointment as our new Chief Executive. The Board was unanimous that Chris has the right skills for the next stage of BG Group's evolution and the delivery of its growth projects."

This has been a challenging year overall for BG Group.

Production was impacted by unexpected shutdowns and delays in the North Sea, reservoir decline in Egypt, and the Group's strategic decision to lower its rig count in the USA, due to the low US gas prices. This caused us to revise our production outlook for the year and for 2013.

Despite these setbacks, I am pleased to say BG Group has made good progress in advancing the delivery of its growth programme in Australia and Brazil, and with its successful exploration programme, particularly in Tanzania.

BG Group made total operating profit* of $8 billion for the year. In view of this progress, the Board has recommended a final dividend of 14.26 cents (9.03 pence) per share, taking the full-year dividend to 26.14 cents (16.67 pence) per share, an increase of 10% on 2011. Further details are set out in the **Financial review** on pages 26 to 31.

My first impressions
I have now been Chairman for nearly a year. I am struck by the Group's ability to remain commercially agile and flexible in its choices of which business lines to follow. This is particularly evident in the creation of a flexible, global LNG portfolio and the ability to trade it to maximum advantage.

The commitment to exploration has been, and remains, fundamental to the success of the Group. The capability to execute our developments is improving and the focus on Australia and Brazil will be relentless in the coming year.

New Chief Executive appointed
On 13 December 2012, Chris Finlayson's appointment as Chief Executive was announced following a rigorous and comprehensive selection process that encompassed both internal and external candidates. I would like to congratulate Chris on his appointment. The Board was unanimous that Chris has the right skills for the next stage of BG Group's evolution and the delivery of its growth projects.

Chris has more than 35 years' experience in the oil and gas industry and, during his time at Royal Dutch Shell plc, he held a number of senior leadership positions in exploration and production, and LNG. He has an outstanding track record of delivering large-scale projects and in the optimisation of production and operational performance. He has also worked successfully with joint venture partners, national oil companies and governments at the highest levels.

Volatile macro-environment
While the economic slowdown continues to affect industrialised countries, emerging markets are still doing well overall. China appears to have recovered from a slowdown earlier in 2012 and should see relatively robust growth in 2013, on the back of increased trade and manufacturing. As a result, other emerging markets should also see a boost. In Europe, economic uncertainty persisted, with Greece, Spain, UK and Italy still in recession.

Following the Arab Spring of 2011, there has been continued political and social uncertainty in Egypt, with parliamentary and presidential elections and political debate on constitutional change. There has also been further unrest in Tunisia. BG Group has reassessed the security of its operations in North Africa, and is keeping the situation under review. The Board visited Egypt in September to gain a greater first-hand understanding of the socio-political challenges and their significance for the Group's current and future activities within the country.

Continued growth in energy demand
Given the prospect of continued economic growth in emerging markets, particularly in Asia, BG Group believes that the global demand for gas will grow at a compound rate of 2.7% per annum through to 2020, as China and India more than double their share of global energy demand. As a result, the Group expects gas to increase its market share, and LNG to play an increasingly important role in the global energy mix.

In the USA, BG Group believes that the supply of lower-cost energy, in the form of both gas and oil, may become a catalyst for an industrial renaissance. By 2025, we expect that US LNG exports will represent some 10% of the global

*Unless otherwise set out in this statement, financial information for the Group and its business segments is based on BG Group's business performance. For a reconciliation between business performance and total results, see note 1 on page 93 and note 9 on page 103.

Full-year dividend per share

26.14 cents

2011 23.76 cents

(+10%)

Full details on **page 103**

LNG market, and this will not overwhelm the global marketplace. In addition to US LNG, global markets will require substantial volumes from other sources.

The price of oil fluctuated by 20-25% in 2012, driven by a number of factors, from the eurozone crisis to sanctions in Iran. The price of Brent crude was stable for the last three months of the year, ending close to where it started. This suggests that strong supply and demand fundamentals will continue.

Reflections on a challenging year

The year started well for BG Group, with four new projects being brought onstream in the first quarter. However, the Group's production was then impacted by a number of events, particularly in Egypt and the UK.

In Egypt, BG Group has seen production decline in recent years, due to wells experiencing water break-through. In 2012, new wells were drilled and a compression project completed, but unfortunately compression led to higher water production and lower gas volumes than anticipated.

The UK was impacted by the shut-in of the Total operated Elgin/Franklin field, due to a well control issue, and the delayed start-up of the non-operated Jasmine field. Two-thirds of the 2012 shortfall was from these assets. Buzzard suffered from a shutdown that extended from 30 to 65 days due to scope growth and problems with subsequent start-up.

On BG Group's UK operated assets, limited off-shore accommodation has meant that, beyond carrying out safety critical maintenance, the Group has been unable to complete all the maintenance improvements necessary to increase production efficiency.

In the USA, in response to low gas prices, BG Group reduced its drilling activity to five rigs in 2012, and recorded a non-cash post-tax impairment of $1.3 billion in the second quarter.

Good progress on growth projects

This disappointing production performance overshadowed the good progress that has been made on growth projects.

In Australia, we remain on track for first LNG in 2014. Earlier in the year, due to local market effects, the increased costs of compliance with regulatory processes and some scope change, we announced a cost overrun. This underlying cost increase, combined with the 20% appreciation of the Australian Dollar, led to a revised budget for the Queensland Curtis LNG (QCLNG) project (2011-2014) of $20.4 billion.

However, more than half of the two-train project has now been completed, as has more than 60% of the scope required to fill the first train. In total, 94% of the project is now covered by contracts and other agreements, such that the Group remains confident that it will deliver Phase 1 of the project on time and within the revised budget.

In Brazil, we made good progress on both schedule and cost in developing the Group's Santos Basin interests. Drilling momentum continued and drilling costs, which account for about half of project capital expenditure, have continued to fall. Additionally, contracts are in place for 90% of the next four leased and eight locally purchased floating production, storage and offloading (FPSO) vessels, and costs are tracking on or under budget.

Balance sheet

BG Group has improved its balance sheet position. The Group made excellent progress with its portfolio rationalisation programme in 2012.

This programme is refocusing the Group's portfolio on its core strengths in exploration, production and LNG. BG Group has now completed or reached agreements on a number of transactions which will release an expected $8.1 billion of capital by the end of 2013. This will significantly exceed its two-year $5 billion target.

BG Group has reduced gearing from 27% at the end of 2011 to 24% at the end of 2012, while at the same time increasing its cash balance to $4.4 billion.

The Board

There were a number of changes to the Board during the period under review.

In September, Fabio Barbosa was granted leave of absence for medical treatment in Brazil. He has now stepped down as Chief Financial Officer (CFO), and has been appointed Chairman of BG South America.

I would like to thank Fabio for his excellent work as CFO over the last two years, in particular his efforts in strengthening our balance sheet.

Den Jones, BG Group Financial Controller, who acted as Fabio's Alternate Director during Fabio's leave of absence, has been appointed as an Executive Director. Den will continue to fulfil the role of BG Group Interim Chief Financial Officer pending the conclusion of a succession process for the role of CFO.

At the beginning of 2013, Philippe Varin retired after almost seven years, and the Board announced the appointment of Lim Haw-Kuang as a Non-Executive Director. I would like to thank Philippe for his advice and support over the years, and I am delighted to welcome Haw-Kuang to the BG Group Board. Haw-Kuang has extensive experience across the international oil and gas industry, including long service as a senior executive in China, the world's fastest growing energy market.

Sir Frank Chapman's legacy

Sir Frank Chapman stepped down as Chief Executive on 31 December 2012. We owe Sir Frank an enormous debt of gratitude for what has been achieved while he was leading the Group.

He has delivered an amazing exploration track record and developed a differentiated and highly valuable LNG model. During his time with the Group, our resource base has grown from 1.2 billion barrels of oil equivalent (boe) in 1996 to more than 18.5 billion boe at the end of 2012.

Frank has transformed the Group from a struggling offshoot of a former state company with a market capitalisation of some $14 billion in 2000 into an internationally diversified exploration and production company, with a specialism in gas, capitalised at around $60 billion.

This phenomenal growth is underpinned by a legacy of opportunities still to be realised, about which I know Chris is very excited.

Summary

It has been a challenging year, with good progress continuing to be made with our mega projects in Australia and Brazil. I have no doubt that BG Group has a very bright future in front of it.

Andrew Gould
Chairman

CHIEF EXECUTIVE'S STATEMENT

CHRIS FINLAYSON
CHIEF EXECUTIVE

"We have many significant milestones to deliver in BG Group's major growth and base assets during 2013. Australia and Brazil are on budget and on schedule, and the Group expects to see significant volume growth and cash flow increases from these assets in 2014 and 2015."

In December, I was given the honour and privilege of becoming only the second Chief Executive in the Company's history. I look forward to leading BG Group through the next phase of its development.

BG Group is a company with deep commercial and technical expertise. Our strategy will continue to build on our distinctive strengths which differentiate us from the majors in the industry: world class exploration, a unique LNG model and our commercial agility.

Following the market's reaction to our third quarter results, when we revised our production outlook for 2012 and 2013, I recognise that we need to rebuild trust in BG Group's ability to execute, and to do that we have outlined clear milestones for 2013. Achieving these will be our immediate focus. Firstly, however, I will summarise our results for 2012.

Group operating performance*

For the full year, BG Group delivered earnings growth of 3%. Cash flow from operations was strong, up 10% to $10.7 billion. Our LNG business performed well, with total operating profit up 13%, demonstrating the value of BG Group's flexible LNG model, which allowed us to capture increased margins by diverting cargoes to higher-value markets.

In 2012, BG Group continued to deliver excellent performance in exploration and appraisal, with 18 successful wells out of 19, including a further four successes in Tanzania, delivering an additional 800 million barrels of oil equivalent (mmboe) of discovered resources. Elsewhere, we matured 350 mmboe of resources to reserves and the Group's risked exploration resources grew by more than 20%, with new licences acquired in Uruguay, Egypt, India and Trinidad and Tobago.

A 3% increase in production was consistent with our revised production outlook and we continued to make good progress with our longer-term growth projects in Australia and Brazil, which are expected to deliver significant volume growth and cash flow increases in 2014 and 2015.

Priorities for 2013

We have much to do in 2013, and I have identified and communicated my key priorities:

1. First and foremost, a relentless focus on safety; that includes both personal safety and major accident hazards.
2. Production delivery in BG Group's base assets, in particular Egypt and the UK.
3. The delivery of our key projects, with clear quarterly milestones, including:
   - in Brazil, having a third producing FPSO vessel onstream in the second quarter;
   - in Australia, having first gas to start commissioning the LNG plant around the end of the year; and
   - in total, bringing seven major projects onstream within the Group's overall portfolio during 2013.
4. A key priority is to place continued emphasis on exploration. I have increased BG Group's exploration budget to $1.6 billion in 2013 and promoted Malcolm Brown, our Head of Exploration, to the Group Executive Committee (GEC), reporting directly to me.
5. I will also be pushing for the tight management of cost, and completion of the Group's current portfolio rationalisation programme.

Safety

Safety is my first priority. I believe passionately that every accident and every injury is avoidable. Sadly, two people died working for BG Group in 2012; one in an incident involving a supply vessel in Aberdeen Bay, and the second in a vehicle accident in our Pennsylvania operations. Both incidents were investigated thoroughly and lessons learnt were shared around the Group.

*For a reconciliation between business performance and total results, see note 1, page 93 and note 9, page 103.

In Australia, there were too many minor injuries as hours worked ramped up over the year. This increased BG Group's overall total recordable case frequency to 2.26, well above the Group's target of 1.35. Excluding QGC, the Group met its safety target in 2012, and in aggregate was top quartile in the industry**.

QGC has an extensive action plan to address its safety performance, including ensuring better contractor safety management, and is targeting a 50% improvement this year. The rest of the Group has a target to further improve its safety performance through consistent application of enhanced safety management tools.

In addition to personal safety, we are also extremely focused on process safety and asset integrity performance. In 2012, the Group ran a high-profile campaign to raise awareness of major accident hazards and conducted training for more than 350 people, including members of the Board. We will seek to build on this progress in 2013. Further information on our safety performance and priorities are set out on page 40.

Improve production from base assets

The majority of BG Group's base assets delivered volumes close to budget expectations in 2012. Egypt and the UK were the major drivers of the Group's production shortfall.

In Egypt, we have put in place a four point recovery plan to:

- improve the predictability of field performance by gathering more reservoir data to improve sub-surface understanding;
- increase production from existing well stock, with a series of workovers and acid stimulations;
- sanction the next phase of development of West Delta Deep Marine (subsequently sanctioned in February 2013); and
- target near-field exploration with two wells in 2013 which, if successful, can be connected rapidly to existing infrastructure.

In the UK, we will seek to replicate the production efficiency improvements achieved on Armada in our other operated assets. Additionally, we will work closely with our partners to improve production efficiency on Buzzard and our other non-operated assets.

Deliver projects coming onstream in 2013

BG Group has seven projects coming onstream in 2013. This will be one of the Group's busiest ever years, with teams from the UK, Brazil, Kazakhstan, Thailand and Bolivia tasked with completing projects and shutdowns safely, on time and on budget.

However, new project contributions will be offset by the Group's strategic decision to reduce the rig count further in the USA, natural decline in Egypt, a major maintenance programme in Karachaganak, and the reduced interests in QCLNG upon completion of fully termed agreements following the Heads of Agreement with China National Offshore Oil Corporation (see page 27 and a footnote on page 20 for further details).

On balance, a production range of 630 kboed to 660 kboed (230 to 241 mmboe), excluding any further disposals, reflects fairly the risks and opportunities BG Group faces in 2013. Internally, the Group will continue to drive for 660 kboed (241 mmboe).

Progress our major projects

In Australia, we remain on track to deliver first LNG in 2014. I visited QCLNG in October and was pleased to see the good progress being made. We expect to achieve a significant milestone with first gas to be commissioned in the LNG plant on Curtis Island around the end of 2013.

In Brazil, which I visited in November, we are also making good progress. BG Group has excellent relationships with Petrobras and the partnership is working well. FPSO 2 is onstream and will ramp up in the second half of the year, while FPSO 3 is also on schedule to start production from the Lula NE field in the second quarter of 2013.

Continue to grow our LNG business

In BG Group's LNG business, sales to the Singapore market, where we are the LNG aggregator, are expected to commence this year, following completion of the terminal facilities. We will continue to build on the success of our unique LNG trading model and, overall, we expect LNG Shipping & Marketing operating profit in 2013 to be in the range $2.5 billion to $2.7 billion, at market conditions in January 2013, slightly ahead of last year.

Continue our exploration success

In 2013, BG Group plans to drill key exploration wells in Egypt, Brazil and the UK, and the Group's first Kenya well will be spudded around the end of the year. Appraisal programmes in Australia, Brazil and Tanzania will continue, and two further appraisal wells are planned on Iara to test well designs for the development of this giant field in Brazil. The first of two drill stem tests to be carried out on our major discoveries in Tanzania was successfully completed in March 2013. Exploration remains core to our growth strategy and the Group has significant exploration and appraisal programmes across a total of eight countries this year.

Focus on cost and portfolio

The tight management of cost and the completion of our current portfolio rationalisation programme will be high priorities in 2013. As in 2012, we will continue to keep our portfolio under active management and review.

Summary

We have many significant milestones to deliver in BG Group's major growth and base assets during 2013. Australia and Brazil are on budget and schedule, and the Group expects to see significant volume growth and cash flow increases from these assets in 2014 and 2015. We have the people, the opportunity set and the know-how to deliver industry-leading growth in shareholder value. Despite the challenges of 2012, we can, and will, deliver on this promise.

Chris Finlayson
Chief Executive

**International Association of Oil & Gas Producers industry benchmark 2011.

OUR STRATEGY AND BUSINESS

THE BUSINESS STRATEGY SUPPORTING BG GROUP'S INVESTMENT PROPOSITION IS CONSISTENT AND PROVEN. THE GROUP IDENTIFIES HIGH-VALUE MARKETS THAT PROVIDE OPPORTUNITIES FOR GROWTH AND FINDS COMPETITIVELY PRICED RESOURCES TO SUPPLY THOSE MARKETS.

STRATEGY

GLOBAL GAS MAJOR

Investment proposition
BG Group's investment proposition is that it is an internationally diversified E&P company with a specialism in gas. The Group aims to deliver rates of growth that are a multiple of the industry average. The vehicle for delivering this investment proposition is a clear, effective and resilient global gas strategy, founded on a deep understanding of the Group's key markets and a broad set of customer relationships.

Track record
The combination of a clear and stable strategy and BG Group's distinctive capabilities has, since 1997, driven strong profits growth, with a compound annual growth rate (CAGR) of 26%. In conjunction with this growth, the Group has achieved significant shareholder returns. Following strong performance in prior years, the Group's share price (and therefore total shareholder return (TSR) performance) was impacted by the revised 2012 and 2013 production outlook announced in the third quarter of 2012.

CONNECT GAS TO HIGH-VALUE MARKETS

Market knowledge
By harnessing BG Group's deep knowledge of local and international markets, the Group has a proven record of understanding, building and supplying natural gas markets around the world. While retaining the Group's distinctive gas capability, BG Group has adapted its approach to oil and secured a material increase in its exposure to oil prices.

Industry leading LNG portfolio
Through the integration of sophisticated marketing skills, infrastructure and an excellent reserves and resources portfolio, the Group also has an established LNG portfolio. The portfolio contains long-term contracted LNG supply and is combined with short-term spot supply to serve our customers' demand requirements.

SECURE COMPETITIVELY PRICED RESOURCES

Exploration leader
In 2012, exploration and appraisal activity added 1.4 billion boe to the Group's resource base, with total reserves and resources now standing at 18.5 billion boe. Reserves and resources have grown by 5.4 billion boe over the last four years – a growth of 9% per annum.

Cost-competitive
In an industry involving commodity products, low-cost operations are a key source of sustainable advantage. BG Group has a continuous focus on maintaining competitive cost levels and endeavours to maintain its industry top-quartile E&P cost performance.

SKILLS TO SUCCEED ACROSS THE GAS CHAIN

Skills for success
BG Group has the skills to identify, commercialise and connect to markets the long-life, competitively priced resources that are the foundation of sustainable value creation. This is underpinned by the Group's commitment to working safely and sustainably in a wide variety of offshore and onshore environments.

Internationally diversified
BG Group works globally, with interests in more than 20 countries, and employs more than 5 700 people, as well as engaging many contractors. The Group's people underpin its competitive advantages and are the core source of BG Group's skills for success.

GLOBAL GAS MAJOR

CONNECT GAS TO HIGH-VALUE MARKETS

- Build and access markets.
- Serve customers.

SECURE COMPETITIVELY PRICED RESOURCES

- Equity reserves.
- Contracted resources.

SKILLS TO SUCCEED ACROSS THE GAS CHAIN

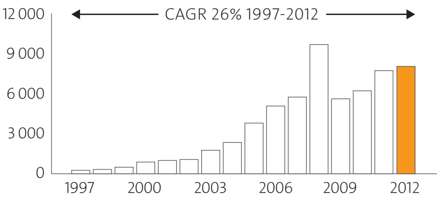
EXAMPLE PRINCIPAL RISKS*

(in alphabetical order)

- Capital requirements, liquidity and interest rates.
- Delivery of projects.
- Operational performance.
- Organisational capacity.
- Resource discovery, estimation and development.

PERFORMANCE

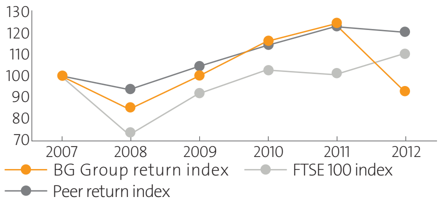
Total operating profit*
($m)



*Continuing operations excluding disposals, certain re-measurements and impairments.

Historical TSR performance**

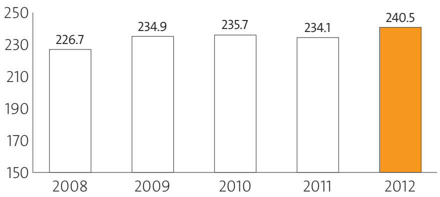
Growth in the value of a hypothetical £100 holding over five years invested in each of BG Group shares, the FTSE 100 index and the 2012 LTIP index of oil and gas industry peers.



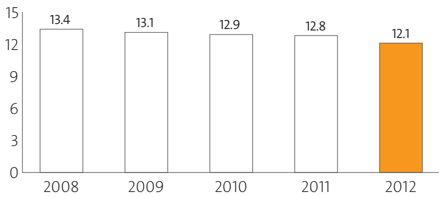
For more information see pages 60 to 75

- Commodity prices.
- Credit risk.
- Environment.

Exploration and production volumes (net)**
(mmboe)



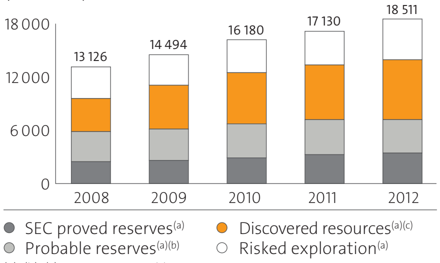
Liquefied natural gas delivered volumes**
(mtpa)



For more information see page 15

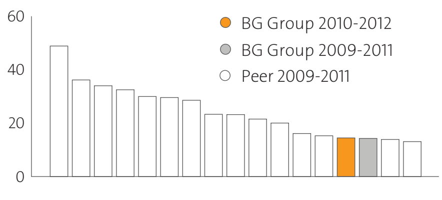
- Delivery of projects.
- Exchange rates.
- Licence to operate and the political context.
- Resource discovery, estimation and development.

Total reserves and resources**
(mmboe)



(a), (b), (c) – see notes to table on page 15.

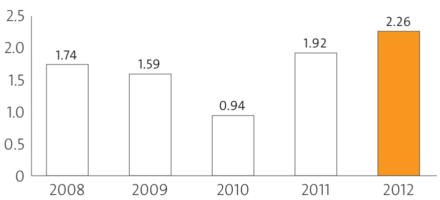
Three-year unit finding and development cost
($/boe)



Source (2009-2011): Evaluate Energy 2012
BG Group Peer Group includes Super Majors and US and European Integrated Majors

- Asset integrity, safety, health and security.
- Organisational capacity.
- Regulation, legislation and litigation.

Total recordable case frequency**
(per million work hours)



BG Group Business Principles

No company can achieve lasting success without ethical integrity, responsible environmental stewardship and the development of positive and enduring relationships with the people, communities and organisations affected by its activities. BG Group therefore believes that compliance with its Business Principles is an essential prerequisite for sustainable, long-term performance and value creation for its shareholders.

*For more information see pages 32 to 37

**Key performance indicators – see page 14.

For more information see pages 38 to 41

HOW BG GROUP CREATES VALUE

BG GROUP'S VISION IS TO BE AN INTERNATIONALLY DIVERSIFIED E&P COMPANY WITH A SPECIALISM IN GAS. THE BUSINESS MODEL OF THE GROUP HAS EVOLVED OVER TIME, ADAPTING ORGANICALLY YEAR-ON-YEAR AS BG GROUP HAS GROWN AND THE INTERNAL AND EXTERNAL ENVIRONMENTS HAVE BECOME MORE COMPLEX.

DISTINCTIVE CAPABILITIES

BG Group's track record of value creation is built on a number of competitive advantages, including: commercial agility; a unique LNG model; and world-class exploration performance.

COMMERCIAL AGILITY

BG Group identifies high-value markets where there is demand, then looks for resources that can be connected economically to those markets, either by pipeline or ships. This market-led strategy provides monetisation options early in the process. Decision-making through to project sanction is further fast-tracked by utilising BG Group's streamlined organisational structure and processes which create clear, personal accountabilities.

BG Group's specialism in gas allows it to identify and capture value throughout the gas monetisation chain.

As an example, BG Group moved quickly to scale down drilling activity in the USA in view of lower gas prices, and then secured early mover advantage for LNG export volumes from the US Gulf Coast.

OPERATING MODEL

The operating model has five elements – Set Direction, Resource, Organise, Perform and Govern.

Safety is always BG Group's highest priority and is embedded in each of these five elements.

SET DIRECTION

Set Direction articulates BG Group's investment proposition and associated objectives, its strategy and the plans through which the Group intends to deliver those objectives.

The strategy is given form and substance through development of detailed business plans, populated with tangible business ventures – opportunities, developments, projects and operations.

The remaining elements of the operating model support delivery of BG Group's strategy and plans.

RESOURCE

The business must have adequate financial resources, equipment, materials, services and technology, as well as a sufficient number of people with the right skills, to deliver its objectives.

A number of business processes exist to ensure that resources are identified, developed and allocated. These include human resources, the strategy and business planning process, the capital investment process and supply chain management processes.

BG Group's business leaders act as stewards over these resources, utilising them in a cost-effective and efficient manner.

PRINCIPAL ACTIVITIES

The creation of economic value and delivery of BG Group's strategy require that the Group performs a number of fundamental activities effectively. These are the Group's Principal Activities.

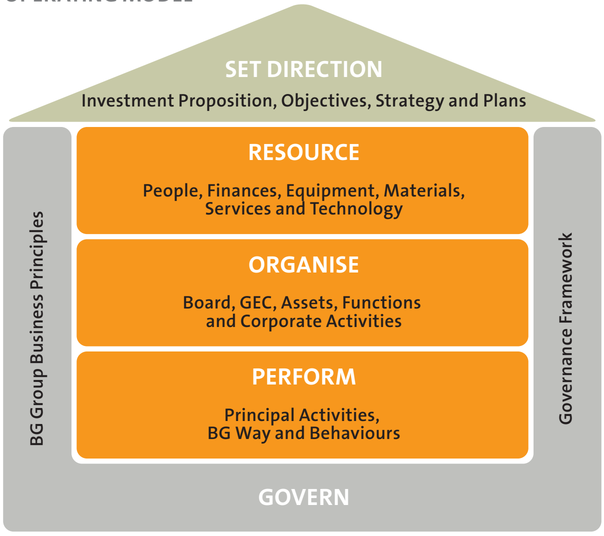
CREATE THE OPPORTUNITY

Exploration and business development activities are performed to identify, discover and capture new sources of value.

ASSESS AND SELECT THE DEVELOPMENT

Multiple concepts are studied to develop the opportunity. Options are further evaluated and the most valuable development concept is selected to be progressed as a project.

OPERATING MODEL



LNG

BG Group has an industry-leading LNG portfolio of flexible supply contracts, high-value sales contracts, shipping capacity and market positions. Unlike the traditional long-term point-to-point LNG business model, BG Group is able to re-optimise its LNG portfolio to respond to changes in demand and customer requirements. This allows the Group to access the highest-value markets and, in combination with the scale of our portfolio, results in an LNG proposition differentiated from other major players.

EXPLORATION

Since 1997, BG Group has been involved in 15 giant discoveries, each of more than 500 mmboe.

An analysis of the industry's achievements from 2002 to 2011 by Wood Mackenzie shows that BG Group's performance is outstripping other major energy companies in most of the exploration categories. Of the 35 companies analysed, BG Group is ranked second overall in the value creation category.

Throughout its exploration activities, BG Group has been able to deliver organic growth and create value because of talented and experienced geologists and geophysicists. The Group's ability to make quick decisions on new projects further underscores the Group's commercial agility.

BG Group's recent exploration success in Tanzania is set out on page 23.

ORGANISE

BG Group's organisation is built upon clear design principles that determine the fundamental shape of the organisation and the roles and accountabilities of individuals.

- BG Group's organisation is asset-based, with enabling expertise flowing from functions and corporate activities;
- assets and functions work together in equal partnership;
- assets deliver business performance and are integrated from the reservoir to the market; and
- BG Group's global energy marketing business creates value through identifying and capturing markets and connecting the Group's supplies to customers, including through shipping activities.

PERFORM

The creation of economic value and the delivery of BG Group's strategy and plans require a number of fundamental activities to be performed effectively and competitively. These Principal Activities are set out below.

The BG Way is a structured and consistent approach to performing the components that make up each Principal Activity. It defines the critical activities that underpin each Principal Activity and how, when and by whom they should be performed.

The BG Group Behaviours define how the workforce should act at all times, individually and collectively, in delivering their work for the Group.

The nine Behaviours are: Anticipate; Challenge; Collaborate; Concern; Deliver; Develop; Impact; Inspire; and Understand.

GOVERN

The BG Group Business Principles and Governance Framework provide the requirements and boundaries within which the Group operates. Further details can be found in the **Sustainability** and **Corporate governance** reports on pages 38 and 48.

The BG Group Business Principles set out the Group's core standards of ethical conduct. They also define the Group's responsibilities to its people, to society and to the environment. They are mandatory and are underpinned by detailed Policies and Standards.

The Governance Framework requires high standards of corporate governance at all times. It has three elements: Committee organisation and structure; the Internal Control Framework; and Independent assurance.

DEFINE AND EXECUTE THE PROJECT

After concept selection, a project is defined to the level of detail required for sanction. Sanctioned projects are then built to deliver an operating asset.

OPERATE THE ASSET

To realise value, gas, LNG, liquefied petroleum gas (LPG), condensate and oil are produced, processed and transported, associated contracts are managed and the asset is maintained and improved.

MARKETING

Marketing occurs in parallel with the other Principal Activities. Value is created and realised through understanding markets and specific customer needs and by connecting gas, LNG, LPG, condensate and oil to these markets.

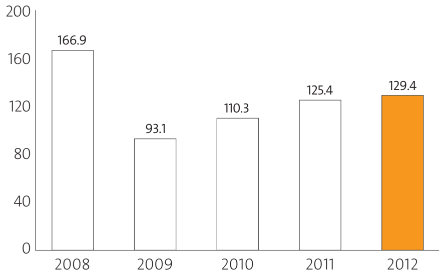
KEY PERFORMANCE INDICATORS

BG GROUP HAS IDENTIFIED THE KEY PERFORMANCE INDICATORS IT BELIEVES ARE USEFUL IN ASSESSING THE GROUP'S PERFORMANCE AGAINST ITS STRATEGIC AIMS. THEY ENCOMPASS BOTH FINANCIAL AND NON-FINANCIAL MEASURES AND ARE SET OUT BELOW.

Delivering long-term growth in earnings
Earnings per share (EPS) is the amount of earnings attributable to each individual share in issue and has been calculated by dividing BG Group's business performance* earnings for the financial year by the weighted average number of ordinary shares in issue and ranking for dividend during the year.

*For a reconciliation between business performance and total results, see note 1, page 93 and note 9, page 103.

Earnings per share
(cents)



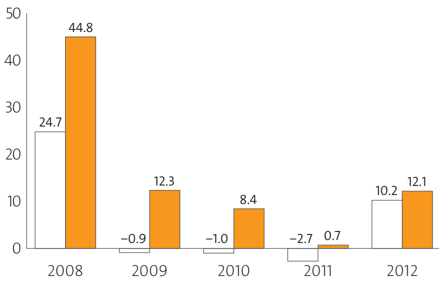
For the year ended 31 December.

EPS in 2012 was 129.4 cents (2011: 125.4 cents). The increase in 2012 was driven by higher realised gas and liquids prices, higher volumes and favourable changes in the production mix in the E&P business, and continued strong demand, particularly from Asia, in the Group's LNG business. These effects were partially offset by higher E&P unit operating and depreciation charges and a higher exploration expense. For further information, see the **Financial review** on pages 26 to 31.

Delivering value to shareholders
Total shareholder return (TSR) is defined as the return on investment (expressed as a percentage) obtained from holding a company's shares over a period of time. It includes the change in capital value of the shares, dividends paid and other payments made to or by shareholders. It is used to measure BG Group's performance relative to its peers**. The Group's TSR performance over a three-year period is used to determine vesting levels under the Group's long-term incentive plans (LTIP). As LTIP awards are typically granted annually in early September, TSR performance is measured to 31 August in each financial year. For further information, see the **Remuneration report** on pages 60 to 75.

**For constituents of the peer group, see page 70.

Total shareholder return
(%)



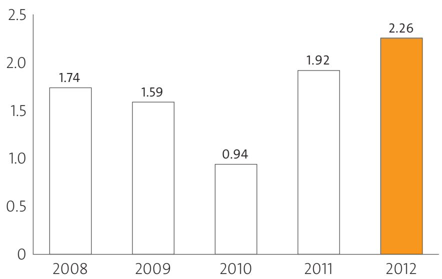
○ Peer group (simple average to 2010 and weighted average from 2011)

● BG Group

The graph shows, for the past five years, the annualised US Dollar TSR of BG Group shares over a three-year performance period and the corresponding average (simple or weighted) TSR of the Group's most relevant industry peers. For the three-year period ending 31 August 2012, BG Group outperformed the weighted peer group index by 1.76% per annum. For details of BG Group's TSR in Pounds Sterling relative to the FTSE 100 index in the period 2007 to 2012, see the historical TSR chart on page 73.

Safety
Safety is a core value for BG Group. The Group believes that all incidents are preventable and pursues a goal of zero injuries across all of its operations. Total recordable case frequency (TRCF) measures the number of injuries per million work hours and is the headline indicator of the success of the Group's safety programmes, measuring the ratio of injuries to working hours.

Total recordable case frequency
(per million work hours)

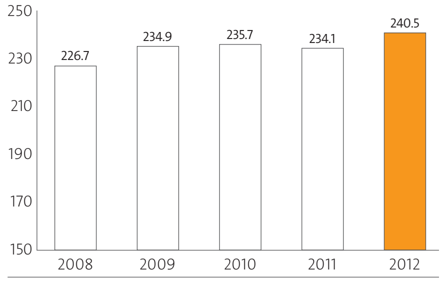


For the year ended 31 December.

In 2012, the Group's overall TRCF was 2.26, well above the target of 1.35. The continued deterioration from a previously improving trend was caused principally by the number of minor injuries in QGC and the ramp up of hours worked as a proportion of the overall Group total. QGC has an extensive action plan to address this, including better contractor safety management, and is targeting a 50% improvement in 2013. Excluding QGC, the rest of the Group met its TRCF target in 2012. Overall, the Group's target for 2013 is 1.75. For further information on the Group's safety performance and priorities, see **Sustainability** on pages 38 to 41.

Production volumes
The graph shows the Group's net production from all of its producing E&P interests and is measured in mmboe.

Exploration and production volumes (net)
(mmboe)

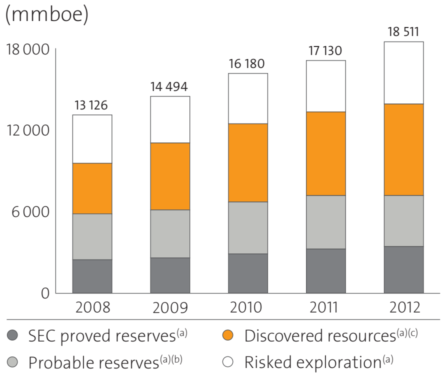


For the year ended 31 December.

In 2012, E&P volumes grew by 3% to 240.5 mmboe as new projects ramped up in Australia, Bolivia, Brazil, Norway and Thailand. However, production growth fell short of BG Group's plan as production during the year was impacted by the shutdown at the Elgin/Franklin field in the UK, the decision to scale back drilling in the USA due to low natural gas prices, the delay of the Jasmine field start-up in the UK to 2013, and lower production in Egypt where the Phase 7 compression project has been less effective than planned at arresting reservoir decline. The Group expects production in 2013 to be in the range of 230-241 mmboe.

Securing resources
BG Group's total reserves and resources represent the Group's total resources base. The size of reserves and resources is a key determinant of the Group's ability to replace production and deliver production growth in the future. It is measured in mmboe.

Total reserves and resources
(mmboe)



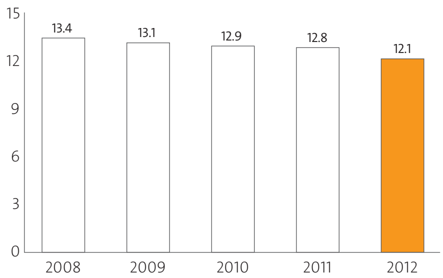
For the year ended 31 December.

In 2012, BG Group increased its total reserves and resources by 8% to 18 511 mmboe. The Group's proved and probable reserves increased marginally to 7 189 mmboe during 2012 (2011: 7 186 mmboe) and discovered resources[(a)(c)] increased by 9% to 6 739 mmboe (2011: 6 160 mmboe). Reserves and resources have grown by over 5 billion boe over the last four years – a compound rate of 9% per annum.

(a) For an explanation of these terms, refer to page 128.
(b) BG Group adopted the SEC definition of probable reserves in 2009.
(c) Discovered resources were previously called unbooked resources until 2009.

Connecting gas to high-value markets
This is a measure of the volume of LNG that BG Group has delivered, excluding fuel gas. The Group has a portfolio of flexible, long-term LNG supply, sourced from its own liquefaction plants in Egypt and Trinidad and Tobago and from third-party suppliers in Equatorial Guinea and Nigeria. Delivered volumes also includes third-party spot purchases. It is measured in millions of tonnes per annum (mtpa).

Liquefied natural gas delivered volumes[(a)]
(mtpa)



For the year ended 31 December.

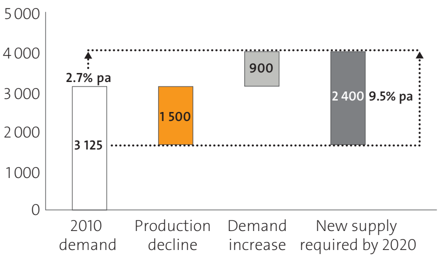
(a) In prior years, this indicator was based on managed volumes (see Glossary on page 141 for definitions). For more information on delivered volumes, see page 24.

LNG delivered volumes in 2012 were 12.1 mtpa, some 0.7 mtpa lower than 2011, due mainly to a reduction in third-party spot purchases. Spot cargo purchases in the year reduced from 22 to 15. The total delivered volumes equate to 197 cargoes. During the year, BG Group delivered 90% of cargoes (2011: 86%) to global markets outside the USA, including 122 to Asia, 47 to South America and eight to Europe (2011: 109 to Asia, 44 to South America and 23 to Europe). 2013 delivered volumes are expected to be lower due to lower supply from Egypt and an expectation of minimal spot volumes given the current market tightness.

BUSINESS ENVIRONMENT AND OUTLOOK

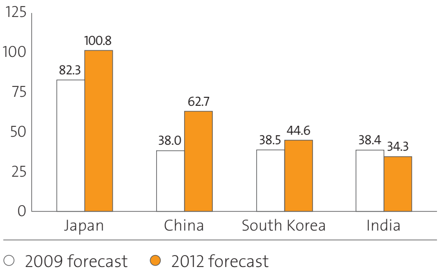
BY HARNESSING BG GROUP'S DEEP KNOWLEDGE OF LOCAL AND INTERNATIONAL MARKETS, THE GROUP HAS A PROVEN RECORD OF UNDERSTANDING, BUILDING AND SUPPLYING NATURAL GAS MARKETS AROUND THE WORLD.

Global gas supply challenge (2010-2020)
(bcma)



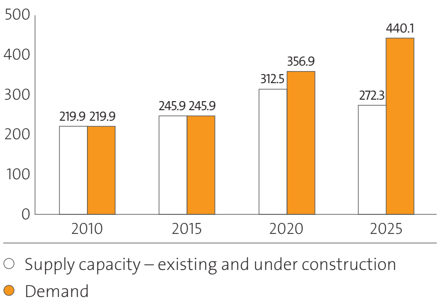
Source: BG Group interpretation of Wood Mackenzie.

Top four LNG importers in 2025
(mtpa)



Source: BG Group interpretation of Wood Mackenzie data (Nov 2009 and Nov 2012 forecasts).

LNG demand to 2025
(mtpa)



Source: BG Group interpretation of Wood Mackenzie data (Nov 2012).
Note: Supply adjusted by BG Group to account for boil-off losses in transit.

MARKET KNOWLEDGE

Growing gas demand

While the global economic slowdown in 2012 affected key growth markets in emerging economies, BG Group believes the long-term outlook for those markets remains positive.

During the year, the global economy continued to be affected by weak demand in industrialised countries, stemming primarily from continuing uncertainty around the eurozone crisis. As a result of this weaker demand and trade, China and other emerging economies also slowed down. By the end of 2012, however, both China and the USA were showing clear signs of recovery, led by consumer spending and investment.

In 10 years, China has gone from barely registering in global energy markets to being the largest single energy consumer in the world. Although its future appears bright, China does face material economic challenges in its transition to more sustainable growth. To help address some of these challenges, the Chinese government is already taking action, and has focused away from the export-oriented eastern provinces to the less developed interior provinces. The composition of China's GDP has also begun to shift. Net exports have begun to drop and domestic consumption is rising.

The economies of both China and India are predicted to grow at attractive rates to 2025. BG Group believes global demand for gas will grow at a compound rate of 2.7% per annum from 2010 to 2020. Furthermore, by 2025, China and India alone are projected to add 60% more in terms of GDP than the combined total of the USA, the EU and Japan. BG Group has positioned itself well in terms of serving these markets, through its developments in Australia, the USA and East Africa, including a Heads of Agreement for LNG sales with China National Offshore Oil Corporation (CNOOC). Under this agreement BG Group will supply CNOOC with 5 mtpa of LNG for 20 years beginning in 2015, sourced from the Group's global LNG portfolio.

Looking forward, BG Group believes China and India will more than double their share of global energy demand by 2025. Their total is expected to rise from some 15% today to around 35% of all energy consumed, driven primarily by growth in power generation required to meet rapidly increasing domestic consumption. To meet this anticipated expansion in energy demand, the Group believes gas will increase its market share, and LNG will play an increasingly important role as these countries source that gas from non-domestic suppliers.

Gas supply

The Group maintains its view that strong underlying gas demand will generate immense supply challenges over the remainder of this decade. By 2020, production from existing fields is expected to decline by 1 500 billion cubic metres per annum (bcma). At the same time, BG Group expects demand to increase by more than 900 bcma (see chart on this page). That adds up to a shortfall requirement of some 2 400 bcma of new supply in just 10 years from 2010 which equates to a supply growth rate of more than 9% per annum, requiring some $2 trillion of investment.

In the USA, BG Group believes the supply of lower-cost energy in the form of both gas and oil may become a catalyst for an industrial renaissance. Barely five years ago, the USA was expected to be a significant gas importer. Today, at current production rates, BG Group believes the USA has enough gas to last for more than a century, and will soon be an LNG exporter. BG Group has again moved rapidly to take advantage of this shift by securing offtake export volumes from the Sabine Pass project. The Group is also working with Energy Transfer Equity, owner of the Lake Charles import terminal in Louisiana, to adapt the facility to liquefy natural gas for export, subject to regulatory approval. At the same time, BG Group is also participating in the development of shale gas supply via its positions in the Marcellus and Haynesville plays.

Gas is being used increasingly in US power generation. The second quarter of 2012 was the first period in which gas and coal contributed equally to power generation in the USA. US energy-related CO_2 emissions have already fallen by 450 million tonnes over the last five years due to switching from coal to gas. BG Group believes the trend towards increased gas usage in the USA will continue, as companies are already moving quickly to build manufacturing capacity to take advantage of competitive energy prices.

The International Energy Agency predicts that total recoverable global gas resources could exceed 250 years of current production*. That gives the world an abundant energy source that is economic and increasingly fungible, and which has lower carbon intensity than other fossil fuels.

Increasing LNG demand
Japan continues to be the world's biggest importer of LNG. BG Group expects China to be the second-largest importer of LNG by 2025, with South Korea third and India fourth (see chart opposite).

Japan imported around 88 mtpa in 2012 partly due to the prolonged nuclear power outage, a 10% increase over 2011. Imports in 2013 are not expected to be much higher than 2012 as Japan is close to its current maximum import capacity.

The Group believes that reduced nuclear power in the future Japanese fuel mix may trigger the building of additional gas-fired generation capacity and the conversion of older power plants to more efficient models.

In 2011, LNG accounted for 10% of all natural gas consumed globally. BG Group expects that share to grow to 14% by 2025, which means that the LNG market would grow from 240 mtpa in 2012 to around 440 mtpa by 2025 (see chart opposite).

LNG supply
By 2025, the Group expects that US LNG exports will represent some 10% of the global LNG market and that US LNG exports will not therefore overwhelm the global marketplace.

While US exports have the potential to inject substantial new volumes into the global LNG market, BG Group does not expect that this development will drive a full convergence of Henry Hub and Asian term prices. The cost of turning gas into LNG in the USA, and the fact that shipping costs to Asia exceed the current US gas price, means that gas prices will remain highly regionalised for the foreseeable future.

Oil supply and demand
During 2012, oil prices fluctuated 20-25%, principally as a result of the eurozone crisis, economic slowdown in China, sanctions in Iran and a rise in US tight oil production. The price of Brent crude ended the year at $108 per barrel (/bbl), close to where it started the year ($106/bbl). This suggests that global supply and demand fundamentals are strong and BG Group expects this trend to continue into 2013.

Growth in oil supply in 2012 was relatively strong, 2 million barrels of oil per day (mmbopd) more than the previous year. This increase came, principally, from increased tight oil production in the USA. Iraq also increased its production substantially, reaching its highest level since the Gulf War in 1990. Overall, global demand for oil in 2012 increased by approximately 1 mmbopd. Consequently, total oil stocks in Organisation for Economic Cooperation & Development (OECD) countries remain above their historical average, both in absolute levels and in ability to cover daily demand. However, total OECD product stocks remain low, primarily because of refinery closures in Europe resulting from weak demand in that region.

As global demand for oil continues to grow, new sources of supply will be critical. Brazil – where BG Group continues to make good progress with its interests in the Santos Basin – will be one of the key resource plays that will help supply the rising demand.

BG GROUP OUTLOOK

Exploration and production volumes
In 2013, BG Group plans to bring seven major projects onstream. New project contributions in 2013 will be offset by BG Group's strategic decision to reduce rig count further in the USA, natural decline in Egypt, a major maintenance programme in Karachaganak and reduced equity in QCLNG following the expected sale to CNOOC of certain interests in the QCLNG project (see page 27 and a footnote on page 20 for further details). BG Group believes a range of 630 thousand barrels of oil equivalent per day (kboed) to 660 kboed, excluding any further disposals, reflects fairly the risks and opportunities BG Group faces in 2013. (Quarterly milestones for 2013 production are set out above).

Year-on-year production is expected to be slightly down in the first half of 2013 and lower in the third quarter when BG Group performs most of its maintenance programme. It is then expected to grow strongly in the fourth quarter, driven by the ramp-up of two FPSO vessels in Brazil, and significant volumes from Jasmine and Margarita Phase 2. In the first quarter of 2013, the operator announced the restart of production at Elgin/Franklin.

Given this starting point in 2013, and adjusting for the expected sale to CNOOC of certain interests in the QCLNG project, the Group's previous guidance of more than 1 mmboe per day will not be reached by 2015. However, the Group still expects strong volume and cash flow growth from Australia and Brazil in 2014 and 2015.

LNG
In 2013, BG Group expects its long-term contracts to supply around 11.3 million tonnes of LNG, a reduction of 0.3 million tonnes on last year, principally because of lower supply from Egypt. Given current market tightness, the Group expects minimal spot volumes this year.

2013 PRODUCTION OUTLOOK – QUARTERLY MILESTONES

Q1
- Brazil FPSO 2 onstream.
- Everest East expansion onstream.
- Elgin/Franklin production restart.

Q2
- Brazil FPSO 3 onstream.
- Karachaganak planned shutdown.

Q3
- Bongkot N Phase 3K onstream.
- Itaú Phase 2 onstream.
- UK shutdowns.

Q4
- Jasmine onstream.
- Margarita Phase 2 onstream.

BG Group's portfolio is substantially unhedged for 2013 and, in Chile, the pricing has been switched to a predominantly Henry Hub-linked basis. Overall, BG Group expects LNG Shipping & Marketing operating profit in 2013 to be in the range $2.5 to $2.7 billion, based on market conditions in January 2013 (Brent oil price around $108/bbl and Henry Hub around $3.40/mmbtu).

Exploration
BG Group's exploration budget has been increased to $1.6 billion in 2013 (exploration outlook by country is outlined in the **Operating review**, pages 18 to 25). BG Group plans to drill key exploration wells in Egypt, Brazil and the UK and its first Kenya well is scheduled to spud around the end of the year. The Group is also continuing appraisal programmes in Australia and Tanzania.

On the Iara field in Brazil, a fourth well is being drilled. There are plans to drill a further well in 2013 to test well designs for the development of this field. BG Group has major seismic programmes in Uruguay, Kenya, Tanzania and Egypt and also aims to sign new licences in Honduras, Bolivia, Norway and the UK.

*International Energy Agency Report: Are we entering a golden age of gas? Page 45.

METHANE SHIRLEY ELISABETH LNG VESSEL, LAKE CHARLES, LOUISIANA, USA

BG Group has a core fleet of modern double-hulled LNG carriers. In 2012, BG Group's fleet travelled 2 932 194 nautical miles, equivalent to 14 trips from earth to the moon.

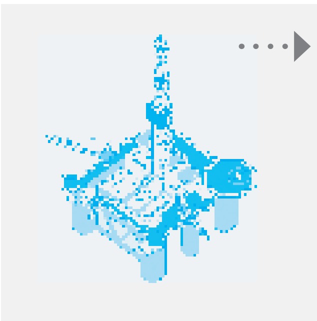
OPERATING REVIEW

IN 2012, BG GROUP MADE IMPORTANT PROGRESS ON ITS KEY PROJECTS IN BRAZIL AND AUSTRALIA AND CONTINUED TO DELIVER OUTSTANDING EXPLORATION AND APPRAISAL (E&A) PERFORMANCE, WITH 18 OUT OF 19 E&A WELLS PROVING SUCCESSFUL.

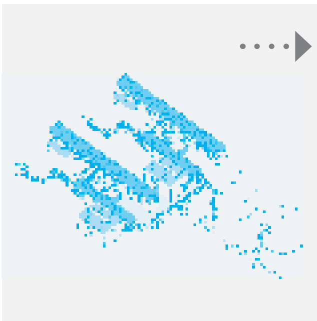
BG Group's Upstream segment covers exploration and production activities for gas, oil and liquids, plus liquefaction operations associated with integrated LNG projects. BG Group's LNG Shipping & Marketing segment covers the purchasing, shipping, marketing and sale of LNG, as well as the Group's interests and capacity in regasification facilities.

GAS VALUE CHAIN

UPSTREAM



Exploration and production
BG Group discovers and extracts gas. Onshore and offshore production facilities collect gas from drilling wells, then it is transported via pipeline to liquefaction facilities or local markets.



Liquefaction
A liquefaction facility cools gas to –160°C, condensing it to 1/600 of its volume, allowing for economical transportation.

Oil
BG Group has adapted its approach to oil and works with resource-holding governments to develop the resource.

LNG SHIPPING & MARKETING

Shipping
The LNG is loaded onto specially built ships designed to hold super-cooled gas. LNG can be transported to any country in the world with a regasification terminal.

Regasification
The LNG is warmed at the onshore or floating regasification facility, converting it back to gas for distribution.

Marketing
In addition to BG Group's own LNG resources, the Group also buys gas resources under long-term purchase agreements or on the spot market in order to meet LNG demand.

UPSTREAM

Total operating profit*

$5 464m

2011 $5 440m

(+0.4%)

Exploration and production volumes (net) (mmboe)

240.5

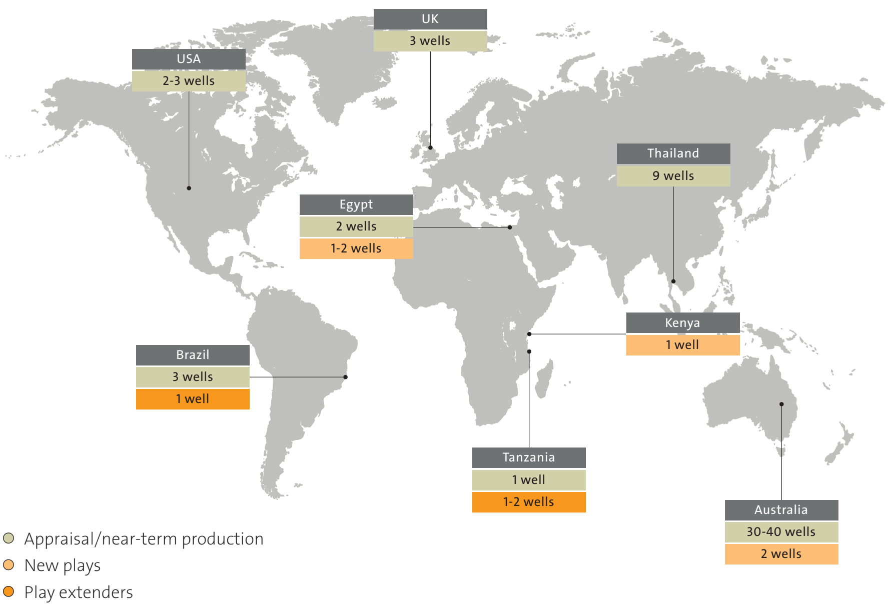
2011 234.1

(+3%)

KEY BUSINESS DEVELOPMENTS

- In Brazil, BG Group lifted seven cargoes totalling in excess of 7 million barrels (mmbbl) of oil from FPSO 1 on Lula for export.
- FPSO 2 commenced production on Saphinoá South in January 2013 and FPSO 3 is on schedule and on budget for start-up in the second quarter of 2013.
- Independent expert certification of the resource estimates on the Lula, Iracema, Saphinoá, Iara and Carioca discoveries in Brazil confirmed BG Group's estimate of the reserves and resources range of 4 billion boe to 8 billion boe, with a mean of 6 billion boe**.
- Development well on Saphinoá drilled in just 43 days, representing the best performance to total depth so far in the Santos Basin, Brazil.
- 15 FPSOs being progressed and due onstream by 2018 in Brazil, with anticipated aggregate production capacity of 2.1 mmbopd and a gas processing capacity of around 3 billion standard cubic feet per day (bcfd).
- Significant progress in Australia across the QCLNG project, with drilling activities ramping up, construction of upstream facilities progressing, pipeline welding, lowering and backfilling advancing, and LNG plant construction and module delivery on track.
- At QCLNG, more than 50% of the scope for the first phase of the project (Trains 1 and 2) to the end of 2014 has been completed on a value-of-work-done basis. The project remains on budget and on schedule to deliver first LNG in 2014.
- Heads of Agreement (HoA) signed with CNOOC, which includes the sale of certain interests in the QCLNG project†.
- Tanzania gross total resources in current discoveries near 10 trillion cubic feet (tcf) after four further gas discoveries in 2012.
- New projects came onstream in Bolivia, Egypt, Norway and Thailand.
- Production during the year was impacted by the shutdown at the Elgin/Franklin field in the UK, the decision to scale back drilling in the USA, the delay of the Jasmine field start-up in the UK and lower production in Egypt.
- A further 1.4 billion boe added to total resources.
- New exploration licences acquired in Egypt, India, Trinidad and Tobago and Uruguay.

2013 EXPLORATION ACTIVITIES



GLOBAL EXPLORATION & APPRAISAL OPERATIONS

BG Group had continued exploration success in 2012. Eighteen out of 19 E&A wells were successful, delivering a further 800 mmboe of discovered resources. BG Group also matured 350 mmboe of resources into reserves. The Group's exploration budget has been increased to $1.6 billion in 2013, and the 2013 exploration activities are set out on the adjacent map.

* For a reconciliation between business performance and total results, see note 1, page 93 and note 9, page 103.
** BG Group view, not the operator or relevant consortium view. Miller and Lents, Ltd was not asked to differentiate reserves from total discovered resource volumes.
† The interests to be conveyed include a stake in certain upstream tenements and the Train 1 liquefaction facility, but exclude any interest in the Train 2 liquefaction facility, transmission pipeline and QCLNG common facilities. The HoA also includes the sale of 5 mtpa of LNG for 20 years beginning in 2015 sourced from the Group's global LNG portfolio and the joint investment in two additional LNG ships.

COUNTRIES*	2012 KEY EVENTS	OUTLOOK
Egypt: • 2012 net production 48.1 mmboe (2011: 49.4 mmboe). • Operatorship of two gas-producing areas offshore the Nile Delta – Rosetta and West Delta Deep Marine (WDDM) concessions. • Operatorship of three other concessions offshore the Nile Delta – El Manzala Offshore, El Burg Offshore and North Gamasa Offshore. • Major shareholdings in the Egyptian LNG project (Train 1 at 35.5% and Train 2 at 38%). • Supplier of gas to the Egyptian domestic market, Egyptian LNG trains 1 and 2 and Damietta LNG.	• Production volumes were lower than planned due to the WDDM Phase 7 compression project being less effective than expected at arresting reservoir decline. • First gas was produced from the WDDM Phase 8b project, with six wells tied in to the sub-sea facilities during 2012. • WDDM Phase 9a front-end engineering and design (FEED) was completed. • El Burg Offshore exploration well, Harmattan Deep-1, was successful. • A second well, Notus, was spudded in September with planned completion in 2013, and BG Group reduced its interest in the El Burg and North Gamasa Offshore blocks to 60%. • Farm-in (40%) to East Burullus block.	• Production is expected to be some 20 kboed less in 2013 than in 2012 due to the impact of WDDM Phase 7 being less effective than expected. • WDDM Phase 8b final two wells are to be completed and tied back in 2013. • WDDM Phase 9a to begin in the second quarter of 2013. The project will include additional infill wells, new development wells and further workover programmes. First gas is expected in 2014. • Egyptian LNG is expected to operate below full capacity until more feed gas is available. • Completion of exploration well on key Notus prospect in new Oligocene play. • Near-field exploration to mature resources for plateau extension.
Kazakhstan: • 2012 net production 36.0 mmboe (2011: 37.4 mmboe). • Joint operator of the super-giant Karachaganak oil and gas condensate field (BG Group 29.25%), one of the largest condensate fields in the world.	• Settlement agreement between the Republic of Kazakhstan and Karachaganak contracting companies was completed in June 2012. Under the terms of the agreement, BG Group's interest in the Karachaganak project reduced to 29.25% from 32.5%. • The agreement also includes the allocation of an additional 2 mtpa in the Caspian Pipeline Consortium (CPC) export pipeline (BG Group 2%) over the remaining life of the final production sharing agreement (FPSA) for the use of the Karachaganak project. The additional capacity starts at 0.5 mtpa immediately and rises to 2 mtpa during the CPC expansion.	• To date, only some 10% of hydrocarbons initially in place have been produced from the Karachaganak field. • Significant development opportunities remain. • Expansion of the CPC export pipeline, a key export route for production from Karachaganak, with completion expected in 2015.
UK: • 2012 net production 35.2 mmboe (2011: 38.2 mmboe). • Extensive interests focused in the UK's central North Sea, including a number of production hubs (Armada, Everest and Lomond), exploration and appraisal interests, and equity in pipeline and processing facilities. • Ventures operated by others include Buzzard, Elgin/Franklin and J-Block.	• Production volumes were lower than planned due to a well control issue that occurred on the Elgin wellhead platform and the delay of the Jasmine field start-up into 2013. • Production at Elgin/Franklin was shut-in from March 2012. A successful well intervention was carried out at Elgin in May 2012. The shut-in resulted in 2012 production volumes being some 5 mmboe (net to BG Group) lower than planned. • First production commenced from the Gaupe project, a two-well sub-sea development in the Norwegian sector of the North Sea, tied back to the Armada platform. • Work ongoing on the development of the Jasmine field. • Everest East Expansion (EEE) project is ongoing, with topsides and sub-sea construction activities progressing and two wells drilled, completed and tested. • The White Bear prospect was drilled, but was written off following post-well evaluation. • BG Group bid successfully for new licence blocks in the 27th Licence Round.	• Elgin/Franklin restarted in March 2013 and production is expected to increase progressively through 2013. • EEE first production was achieved in March 2013. • Start-up of the Jasmine field, originally planned for late 2012, has been delayed until the fourth quarter of 2013. • Production from Phase 2 of the West Franklin field development is expected in 2014.
USA: • 2012 net production 28.8 mmboe (2011: 26.7 mmboe). • BG Group and exploration partner, EXCO Resources, Inc. (EXCO), develop shale gas in east Texas/North Louisiana (Haynesville and Bossier) and Pennsylvania/West Virginia (Marcellus).	• Drilling was scaled back in response to low US gas prices. • At year end 2012, BG Group and partners had five rigs operating (reducing to four in the first quarter of 2013). • The Group continues to develop its US LNG export opportunities, which benefit from low US gas prices. • Began the pre-filing process for the required Federal Energy Regulatory Commission (FERC) environmental permit application to expand the Lake Charles terminal to include liquefaction services under a tolling agreement. The project is at a design and permitting stage and is currently planned to produce and export up to 15 mtpa.	• Expect further scaling back of drilling due to low US gas prices. BG Group has a short lead time to re-establish rig count, and therefore can increase production, should US gas prices improve the economic ranking of US opportunities. • Awaiting decision on application for authorisation to export LNG from Lake Charles terminal to US non-free trade agreement (FTA) countries. Received authorisation to export LNG to FTA countries in 2011.
Trinidad and Tobago: • 2012 net production 26.8 mmboe (2011: 27.4 mmboe). • Three concessions with fields currently producing – Central Block, East Coast Marine Area (ECMA) and North Coast Marine Area (NCMA). • Exploration activities in Blocks 5(a), 5(c), 5(d) and 6(b). • Major shareholdings in all four trains of the Atlantic LNG project.	• Production sharing contract (PSC) executed for Block 5(d) which sits adjacent to Block 5(c). • First gas was achieved from the Baraka and Baraka East tie-in and compression (BTIC project) in Central Block. This development allows for the extension of existing gas supply contracts to both domestic and export markets. • Construction commenced on the NCMA Phase 4a compression project for the Hibiscus platform. • ECMA Starfish project was sanctioned. • Commenced seismic programme over Blocks 5(c), 5(d) and 6(b).	• Completion of seismic programme over Block 5(d) acreage, as well as part of the Block 5(c) acreage in preparation for an appraisal programme. • Appraisal drilling programme is proposed to commence no earlier than 2014 for Block 5(c), subject to partner agreement. • First gas is due to be introduced to the NCMA Phase 4a compression project in 2014. • Starfish project is expected onstream in 2014.

*Producing countries overview and net production to BG Group (in order of net production volumes).

COUNTRIES* (see footnote on page 21)	2012 KEY EVENTS	OUTLOOK
Tunisia: • 2012 net production 13.5 mmboe (2011: 14.6 mmboe). • Operator of the Miskar field (BG Group 100%) and Hasdrubal field (BG Group 50%). • Operator and joint permit holder of the Amilcar exploration permit, offshore Sfax in the Gulf of Gabes. • Largest gas producer in Tunisia, supplying more than 60% of Tunisia's domestic gas production.	• 2012 well intervention programmes on both Miskar and Hasdrubal fields. • In-principle approval granted for an additional two-year extension to the Amilcar exploration permit, extending the licence until December 2014. The approval is pending formal ratification by law.	• Ongoing well intervention campaigns on Miskar and Hasdrubal fields.
Thailand: • 2012 net production 13.1 mmboe (2011: 9.9 mmboe). • 22.22% interest in the Bongkot field. The field supplies approximately 20% of Thailand's gas demand and Bongkot is the biggest single supplier in the Gulf of Thailand. • Operator of Blocks 7, 8 and 9 (66.67% interest).	• Production commenced from the Bongkot South (GBS) project which, at plateau, delivers some 14 kboed net to BG Group. • In June 2012, the Bongkot concession passed, for the first time, the significant milestone of producing more than 1 billion cubic feet per day (bcfd) of sales gas from Bongkot North (GBN) and GBS fields combined. • Phase 3J of GBN (two wellhead platforms) came onstream in the fourth quarter of 2012. • During 2012, five exploration wells were successfully drilled in GBN.	• Phases 3K and 3L of GBN (each consisting of two further wellhead platforms) are underway and expected onstream in the third quarter of 2013 and mid 2014 respectively. • Phase 4B of GBS (four further wellhead platforms) is underway and expected onstream in 2014. • Programmes of well intervention, infill drilling and booster compression are being implemented to improve hydrocarbon recovery.
Bolivia: • 2012 net production 10.2 mmboe (2011: 6.8 mmboe). • BG Group is operator and 100% holder of the La Vertiente block (three fields), Tarija XX East (two fields) and Los Suris (one field). • Consortium member of the Caipipendi (37.5% interest, containing the Margarita field), Charagua (20% interest, in the process of being relinquished) and Tarija XX West (25% interest, containing the Itaú field) blocks.	• Production volumes benefited from the start-up of Margarita Phase 1. The project involved the construction of a new 77-kilometre network of gas gathering and export pipelines, gas processing facilities and the tie-in of existing wells. • One well drilled in Tarija XX East.	• Itaú Phase 2 onstream in the third quarter of 2013. • Margarita Phase 2 expected onstream in the fourth quarter of 2013.
Brazil: • 2012 net production 9.3 mmboe (2011: 4.9 mmboe). • BG Group holds significant acreage positions with interests in four offshore blocks in the Santos Basin. • Reserves and resources range of 4 billion to 8 billion boe, with a mean of 6 billion boe**.	• Eight E&A wells were drilled and two extended well tests (EWTs) were carried out. • First Lula FPSO (FPSO 1) operated at close to 100 000 bopd capacity from just four oil-producing wells, one gas injector and one water alternating gas injector. • BG Group lifted seven cargoes from FPSO 1 during the year, totalling in excess of 7 mmbbl. • Construction of FPSO Cidade de São Paulo (FPSO 2) complete and the vessel commenced production on Sapinhoá South in January 2013. • FPSO 3 has arrived in Brazil for topside integration and is more than 95% complete. • FPSOs 4 and 5 are both around 50% complete. • Contracts totalling approximately $4.5 billion were approved for the construction of the first six topside modules and integration packages for the eight Brazilian-built FPSOs that are under construction. • Independent expert certification of the resource estimates on the Lula, Iracema, Sapinhoá, Iara and Carioca discoveries confirmed BG Group's estimate of the reserves and resources range of 4 billion boe to 8 billion boe, with a mean of 6 billion boe**. • Exploration well on Sagitário prospect was spudded and encountered oil in early 2013. • EWT on Iracema produced at levels of around 12 000 bopd, constrained by gas facilities. • Development well on Sapinhoá was drilled in just 43 days, the best performance to total depth so far in the Santos Basin. • Construction commenced on the approximately 380-kilometre long Cabiúnas pipeline, which will connect the Lula field to the Cabiúnas terminal. • BM-S-11 partners awarded Letter of Intent for an additional chartered FPSO (FPSO 6) as part of the first-phase development, expected onstream in 2015.	• 15 FPSOs are being progressed and due onstream by 2018, with anticipated aggregate production capacity of 2.1 million bopd and a gas processing capacity of around 3 bcfd. • FPSO 3 is expected onstream in the second quarter of 2013 on Lula North East. • On FPSO 1, a further water alternating gas injector and two production wells will be connected over 2013 and 2014 to maintain FPSO capacity. • Unless otherwise extended, Declaration of Commerciality on Carioca and Iara is expected to be taken by the end of 2013. • Further appraisal wells, drill stem tests (DSTs) and an EWT are being considered on Iara in 2013. • Cabiúnas pipeline planned start-up in 2014. • Four further Suezmax shuttle tankers are due to be delivered by 2014. • BM-S-9 partners intend to tender for an additional chartered FPSO to develop the Carioca area.
India: • 2012 net production 9.2 mmboe (2011: 11.2 mmboe). • 30% interest in, and joint operators of, Mid and South Tapti gas fields and Panna/Mukta oil and gas fields. • 30% interest in, and operator of, block KG-DWN-2009/1 in the Krishna Godavari Basin. • 50% interest in, and operator of, the deep-water block MB-DWN-2010/1.	• In June 2012, the Panna/Mukta and Mid and South Tapti (PMT) joint venture announced the achievement of the milestone of 500 mmboe cumulative oil and gas production from the PMT fields. • Drilling campaign underway at the PMT fields. • Awarded exploration licence for deep-water block MB-DWN-2010/1. The block is located in the Mumbai basin off the west coast of India and covers an area of nearly 8 000 square kilometres in water depths of around 3 000 metres.	• Continue the drilling campaign in 2013 at the PMT fields. • Enhanced recovery from the PMT fields is planned through incremental development of existing fields via well intervention and infill drilling, as well as evaluating new projects. • Mukta B is progressing to FEED and targeted for completion in 2013. • Acquisition and processing of 2D seismic data in block MB-DWN-2010/1.

**BG Group view, not the operator or relevant consortium view. Miller and Lents, Ltd was not asked to differentiate reserves from total discovered resource volumes.

COUNTRIES* (see footnote on page 21)	2012 KEY EVENTS	OUTLOOK
Australia: ● 2012 net production 9.2 mmboe (2011: 7.6 mmboe). ● The Group is developing a two-train 8.5 mtpa liquefaction plant on Curtis Island in Queensland, Australia. ● Exploration and development of onshore coal seam gas (CSG) acreage in the Surat Basin. ● Exploring CSG acreage in the central Bowen Basin. ● Exploring deep gas sands potential in the southern reaches of the Bowen Basin. ● Exploring shale gas potential in the Cooper Basin. ● Total gross resources in Australia of more than 25 tcf. ● BG Group currently supplies the equivalent of about 20% of the State of Queensland's gas demand.	● At the end of 2012, the Group had contracts and other agreements in place for 94% of the $20.4 billion budget for the first phase scope to the end of 2014. ● In the upstream, drilling ramped up as additional drilling rigs came into service and the inventory of available drilling locations continued to grow. By year end, the Group had 11 drilling rigs operating in the Surat Basin. More than 430 wells were drilled during the year, taking the total number of connectable wells to 1 160. ● The Argyle and Bellevue field compression stations are now in operation. Six others are under construction. All the compressors have been delivered for the Ruby central processing plant that will fill the first train. ● Construction continues on the first of two major water treatment plants. ● The pipeline infrastructure progresses, with all of the clearing, stringing and above-ground welding for the 200-kilometre gas collection system completed and 75% lowered into the ground. The 340-kilometre export pipeline is 74% welded and 45% of the pipeline lowered into the ground. At the Narrows Crossing between the mainland and Curtis Island, channel dredging is complete. ● Construction of the LNG plant is continuing on Curtis Island and at the plant module pre-fabrication yard in Thailand. 49 of the 80 modules required for the first phase have left Thailand, 24 of which have been delivered to Curtis Island. The two LNG storage tanks are progressing. ● Other exploration activity is continuing, with stimulation and production testing of three Bowen tight gas sands wells, and the testing of CSG discoveries in the Bowen Basin. ● HoA were signed with CNOOC which include the sale of certain interests in the QCLNG project† (see footnote on page 20).	● Approximately 2 000 wells are expected to be drilled by start-up in 2014, with 6 000 over the life of the project. ● In 2013, 11 drilling rigs are expected to be in operation. ● Gross production is anticipated to increase to more than 225 kboed (80 mmboe) when the two LNG trains are onstream. ● BG Group is well on track for LNG sales to start in the second half of 2014. ● Possible further expansion with a third LNG train. ● Ongoing exploration activities in the Surat CSG, Bowen CSG and tight gas sands and Cooper Basin shale. ● Fully termed agreements with CNOOC are expected to be executed in 2013 for the sale of certain interests in the QCLNG project† (see footnote on page 20).
Norway: ● 2012 net production 1.1 mmboe (2011: nil). ● BG Group has 12 licences, nine as operator.	● In March 2012, achieved first production from Gaupe through a two-well sub-sea tie-back to BG Group's existing Armada infrastructure in the UK. Gaupe marks BG Group's first production from the Norwegian Continental Shelf. Production performance from Gaupe has been below expectations and the Group has recognised both an impairment charge and reserves downgrade against these upstream assets. The Group continues to work with its partner to maximise production. ● Awarded block PL638 (BG Group 36% and operator) in the Knarr area. ● Following the oil discovery in December 2011 of Jordbær West in production licence PL373S, BG Group sanctioned the Knarr West project in June 2012. This will form part of the Knarr Integrated Project (Central and West combined) with initial production expected in 2014. The leased FPSO for Knarr is under construction in South Korea.	● First production from Knarr field anticipated in 2014, with the potential tie-back of other prospects to the leased FPSO used for production.
DISCOVERIES AND EXPLORATION ACREAGE		
China: ● Operator of Block 63/16 in the Qiongdongnan basin, offshore China.	● Acquisition of 3D seismic on Block 63/16.	● Continued acquisition of 3D seismic, processing and analysis on Block 63/16.
Kenya: ● Entered Kenya in 2011, acquiring an interest in, and operatorship of, offshore blocks L10A (BG Group 40%) and L10B (BG Group 45%).	● Acquisition and processing of 2D and 3D seismic data has identified significant prospectivity in multiple gas and oil-prone plays.	● Continued processing of seismic data. ● First exploration well is planned for around the end of 2013.
Tanzania: ● Entered Tanzania in 2010, and BG Group is the operator of offshore Blocks 1, 3 and 4, in which it has a 60% interest. ● To date, BG Group has made seven consecutive gas discoveries. ● The Group currently estimates gross total resources in current discoveries across its Tanzanian interests to be near 10 tcf, with extensive further potential to be explored in the remaining exploration prospects.	● Jodari-1 gas discovery in Block 1 located 39 kilometres offshore southern Tanzania. ● Mzia-1 gas discovery in Block 1 is the Group's first discovery within the deeper Cretaceous section. ● Papa-1 gas discovery, the first in Block 3, is within the deeper Cretaceous play section. ● Additional 2 500 square kilometres of 3D seismic acquired in Block 1. ● Third phase of the drilling campaign commenced with appraisal drilling on the Jodari discovery.	● Following successful completion of appraisal drilling on Jodari-1 in March 2013, further drill stem testing will continue at the Mzia-2 well in Block 1. ● Identification of a potential site for an onshore LNG plant is underway.
Uruguay: ● BG Group is operator of, and has 100% interest in, Blocks 8, 9 and 13, offshore Uruguay.	● In March 2012, BG Group successfully bid for three offshore blocks (8, 9 and 13). Final PSCs outlining an extensive geophysical work programme were signed in October 2012.	● BG Group intends to acquire 3D seismic data on each block within the first three-year exploration phase.

LNG SHIPPING & MARKETING

Total operating profit*

$2 577m

2011 $2 282m

(+13%)

Delivered volumes (mtpa)

12.1

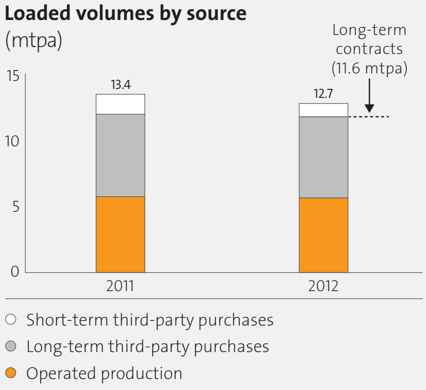
2011 12.8

(–5%)

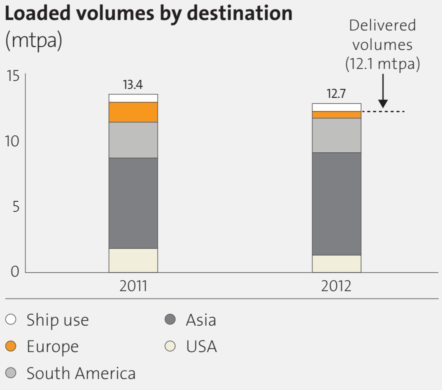
KEY BUSINESS DEVELOPMENTS

- Delivered 197 LNG cargoes to 15 countries in 2012, including 122 cargoes to Asia, 47 to South America, 19 to the USA, eight to Europe, and one to the Middle East.
- HoA signed with CNOOC, under which BG Group will supply 5 mtpa of LNG from its global LNG portfolio for 20 years, beginning in 2015† (see footnote on page 20).
- Under the same HoA, BG Group and CNOOC will jointly invest in the construction of two further LNG ships in China† (see footnote on page 20).
- BG Group sold an initial 20% tranche of equity in the Quintero LNG regasification facility.
- Decision not to pursue the Group's LNG regasification terminal project in Brindisi, Italy.
- The Sabine Pass LNG terminal, located in Louisiana, USA, from which BG Group has an agreement to purchase 5.5 mtpa of LNG, now has the relevant approvals. The terminal operator has made a final investment decision to construct the first two liquefaction trains and construction has commenced.

Loaded volumes by source
(mtpa)



Loaded volumes by destination
(mtpa)



LNG volumes in 2012 were some 0.7 million tonnes lower than 2011 due mainly to a reduction in third-party spot purchases. Throughout the year, Asia, principally Japan, continued to be the destination of choice, offering the highest margins. In light of these conditions, the Group successfully increased delivered volumes to the Asian markets by 13%.

Loaded volumes: Comprise all LNG volumes loaded onto LNG ships and discharged in the applicable period. They also comprise LNG volumes utilised by the ship.

The difference between loaded volumes and delivered volumes is the LNG utilised by the ships.

Delivered volumes: Comprise all volumes discharged in a given period, excluding LNG utilised by the ships.

*For a reconciliation between business performance and total results, see note 1, page 93 and note 9, page 103.

OVERVIEW	2012 KEY EVENTS	OUTLOOK
LNG shipping: • BG Group has a core fleet of LNG ships that it owns or has under long-term charter. In addition, the Group contracts additional shipping as required on a short or medium-term basis to capture business opportunities and maintain a balanced shipping position. • BG Group seeks to secure and control a competitive, flexible and safe LNG shipping portfolio.	• During 2012, BG Group utilised between 23 and 30 LNG ships at any one time. • As part of a suite of agreements signed in 2010 (which included the sale of 3.6 mtpa of LNG to CNOOC), BG Group and partners CNOOC and China LNG Shipping (Holdings) Co. are tendering for the design and construction of two LNG vessels in China. • HoA signed this year with CNOOC envisions BG Group and CNOOC jointly investing in the construction of two additional LNG ships in China (see footnote on page 20). • In 2012, BG Group secured additional modern newbuild LNG ships from high-quality owners.	• BG Group will increase its fleet of modern fuel-efficient LNG ships as it prepares for new LNG volumes.
Regasification: • BG Group has regasification capacity rights in the USA through terminals at Lake Charles, Louisiana and Elba Island, Georgia and in the UK through Dragon LNG in Wales. • BG Group has 50% equity ownership of the Dragon LNG import terminal at Milford Haven in Wales.	• In Chile, BG Group sold an initial 20% tranche of equity in GNL Quintero S.A (GNLQ), which owns and operates the 2.5 mtpa LNG import terminal located in Quintero Bay. BG Group is working towards the sale of its remaining 20% equity tranche in GNLQ. BG Group retains long-term agreements to supply the terminal. • Decision not to pursue the Group's LNG regasification terminal project in Brindisi, Italy.	• Second phase of US Elba Express pipeline is expected to be in service in 2013.
Marketing: • BG Group has a portfolio of flexible LNG supplies that can be deployed globally to capture greater margin opportunities. • The Group's current contracted LNG supply is around 13 mtpa which is sourced from BG Group equity LNG projects in Egypt and Trinidad and Tobago, as well as purchases from third-party projects in Equatorial Guinea and Nigeria. In addition, BG Group has contracted LNG supply of around 14 mtpa from the QCLNG and Sabine Pass projects that are due to commence operations in 2014 and 2015 respectively. • BG Group is engaged in marketing LNG to buyers throughout the world, both on a long and short-term basis. The combination of flexible supply, shipping capacity and commercial capability enable BG Group's strategic approach to LNG marketing. In addition to marketing its own contracted portfolio of volumes, the Group also buys and sells spot LNG cargoes. • BG Group has market access to both the USA, via capacity rights at Lake Charles and Elba Island, and to the UK, through its 50% throughput rights in the Dragon LNG terminal, underpinning the Group's flexible approach to LNG supply. The Group also has a number of long-term contracts in place to supply customers with LNG. • As at 31 December 2012, BG Group has supplied 23 of the 26 markets able to import LNG and bought LNG from 12 of the 18 LNG-producing countries.	• Loaded LNG volumes totalled 12.7 mtpa. • Delivered LNG volumes totalled 12.1 mtpa. • In total, delivered 197 cargoes, of which 90% were delivered to markets outside the USA. • Supplied cargoes to 15 countries in the year. • HoA signed with CNOOC for the sale of 5 mtpa of LNG sourced from BG Group's global LNG portfolio for 20 years, beginning in 2015. Combined with the 3.6 mtpa LNG sale agreement signed with CNOOC in March 2010, BG Group's total committed LNG sales to China will be 8.6 mtpa, making the Group the largest supplier of LNG to the world's fastest-growing energy market. Fully termed transaction agreements are expected to be executed in 2013† (see footnote on page 20). • Under the LNG aggregator agreement with Singapore's Energy Market Authority, BG Group has finalised contracts for the long-term supply of around 2.7 mtpa of LNG for up to 20 years out of its franchise 3 mtpa target. The Singapore LNG receiving terminal is scheduled to start commercial operations around mid 2013. • The Sabine Pass LNG terminal, located in Louisiana, USA, from which BG Group has an agreement to purchase 5.5 mtpa of LNG, now has approvals from both the US Department of Energy authorising the export of LNG from the USA and from the Federal Energy Regulatory Commission authorising construction of the facilities to enable liquefaction and export. BG Group will purchase 5.5 mtpa of LNG over a 20-year period, anticipated to begin in 2015, from Sabine Pass Liquefaction, LLC.	• Long-term contracted supply volumes in 2013 are expected to be around 11.3 mtpa (0.3 mtpa lower than in 2012), primarily related to lower supply from Egypt. • Initial LNG deliveries into Singapore are expected in 2013. • Twenty-year sale of 3.6 mtpa to CNOOC commences in 2014. • Sale of up to 122 cargoes over 21 years to Chubu Electric commences in 2014. • Agreement completed with Gujarat State Petroleum Corporation for the initial supply of 1.25 mtpa of LNG beginning in 2015 for up to 20 years, potentially increasing to 2.5 mtpa after two years. • Twenty-year sale of 1.2 mtpa to Tokyo Gas commences in 2015. • LNG exports from Sabine Pass, which is currently under construction in Louisiana, are anticipated to begin in 2015. • HoA signed for a further 20-year sale of 5 mtpa to CNOOC commencing in 2015† (see footnote on page 20).

*The HoA also includes the sale of certain interests in the QCLNG project. See page 20 for further details.

FINANCIAL REVIEW

IN 2012, BG GROUP MADE STRONG PROGRESS WITH ITS PORTFOLIO RATIONALISATION AND FUNDING DIVERSIFICATION PROGRAMMES, FINANCING ITS EXTENSIVE INVESTMENTS IN AUSTRALIA AND BRAZIL.

DEN JONES
INTERIM CHIEF FINANCIAL OFFICER

"The Board has recommended a 10% increase in the full-year dividend to 26.14 cents per share, reflecting its continued confidence in the Group's prospects."

Total operating profit*

$8 047m

2011 $7 732m

(+4%)

Earnings per share*

129.4 cents

2011 125.4 cents

(+3%)

2012 FINANCIAL HIGHLIGHTS

- Business performance* EPS increased by 3% to 129.4 cents.
- $1.3 billion non-cash post-tax impairment on US shale gas assets.
- Strong cash flow from operations up 10% to $10.7 billion; gearing at 24%.
- Capital investment on a cash basis of $10.4 billion, with $5.0 billion invested in Australia.
- Portfolio rationalisation expected to release $8.1 billion of capital by the end of 2013.
- Progress on funding diversification programme with $2.1 billion equivalent raised from hybrid bond markets, and additional credit facilities secured.
- Cash, cash equivalents and undrawn committed bank credit facilities of $9.6 billion.
- Full-year dividend increased by 10% to 26.14 cents per share.

In 2012, BG Group delivered a good financial performance with strong cash flows, and progressed its portfolio rationalisation and funding diversification programmes.

BG Group's total operating profit increased by 4% to $8.0 billion in 2012. The increase was due to higher LNG margins driven by strong demand from high-value Asian markets, a 3% increase in production volumes and higher realised gas and liquids prices, partially offset by higher operating and depreciation costs in the Upstream segment.

Earnings increased by 3% to $4.4 billion and reflected an effective tax rate of 44.5%, marginally higher than the 2011 effective tax rate of 44.0%.

The Group continued to execute its extensive investment programme. Capital investment on a cash basis in 2012 was $10.4 billion (2011: $10.7 billion) and was focused on the Group's major projects in Australia, Brazil, the UK and Egypt.

In 2012, asset disposals delivered a $2.9 billion cash inflow. As part of its portfolio rationalisation programme, the Group has now completed or signed agreements expected to release $8.1 billion of capital by the end of 2013. These transactions include a HoA to sell certain interests in the QCLNG project to

*Unless otherwise set out in this **Financial review**, financial information for BG Group and its business segments is based on the Group's business performance. For a reconciliation between business performance and total results, see note 1, page 93 and note 9, page 103.

CNOOC, the sale of the Group's entire 60.1% holding in Comgás and the agreement to sell the Group's 65.12% interest in Gujarat Gas Company Limited (GGCL).

In 2012, BG Group progressed its funding diversification programme. It successfully issued $2.1 billion equivalent of hybrid bonds maturing in 2072 and obtained $2.3 billion of credit facilities from export credit agencies, $1.8 billion of which is subject to documentation, providing further long-term funding to support the Group's planned investment programme. The Group also announced a new $3.0 billion syndicated committed credit facility expiring in 2017, which replaced $2.3 billion of expiring bilateral committed credit lines, taking the Group's total undrawn committed bank credit facilities to $5.2 billion. During 2012, the average maturity of the Group's gross borrowings was significantly extended from 10 years to around 17 years following the issue of hybrid bonds described above.

BG Group ended the year in a sound financial position, with $4.4 billion of cash and cash equivalents, net debt of $10.6 billion and a gearing ratio of 24%. During the year, 94% of the Group's cash disbursements were self-funded. This was through a combination of the Group's strong operating cash flows, together with $2.9 billion generated through asset disposals.

Earnings and earnings per share

Earnings were $4 395 million (EPS 129.4 cents) in 2012 compared with $4 251 million (EPS 125.4 cents) in 2011. Including disposals, re-measurements and impairments, earnings (and EPS) for continuing operations were $3 309 million (97.5 cents) in 2012 compared with $4 096 million (120.8 cents) in 2011, and were impacted by a $1.3 billion non-cash post-tax impairment of certain US shale gas assets following the weaker outlook for US natural gas prices.

A five-year summary from 2008 to 2012 of the financial results of BG Group's operations is set out on page 136.

Dividend

The Board recommends a full-year dividend of 26.14 cents per share (16.67 pence per share), an increase of 10%, reflecting its continued confidence in BG Group's prospects.

In considering the dividend level, the Board takes account of the outlook for earnings growth, cash flow and the balance sheet position.

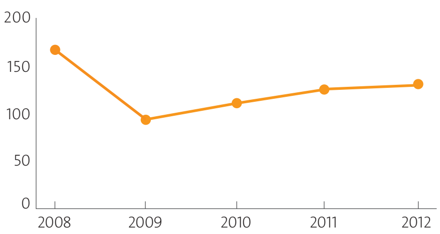
The final dividend for the year of 14.26 cents per share has been converted to Pounds Sterling (9.03 pence per share) at the average of the closing exchange rate for the three business days preceding the business day before the Group's fourth quarter announcement on 5 February 2013, and will be paid on 31 May 2013. For further information on BG Group's dividend, see note 8, page 103.

FINANCIAL RESULTS
BUSINESS PERFORMANCE

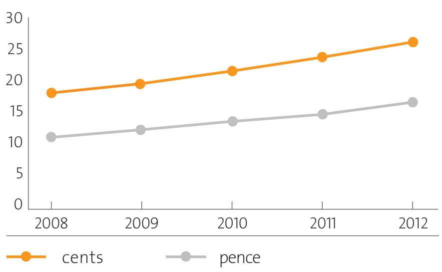
	Revenue and other operating income[a] 2012 $m	2011[c] $m	Total operating profit[b] 2012 $m	2011[c] $m
Upstream	**11 954**	11 151	**5 464**	5 440
LNG Shipping & Marketing	**8 074**	7 834	**2 577**	2 282
Other activities	**12**	19	**6**	10
Less: intra-Group revenue	**(1 077)**	(1 263)		
	18 963	**17 741**	**8 047**	**7 732**
Net finance costs[d]			**(128)**	(141)
Tax[d]			**(3 524)**	(3 340)
Earnings			**4 395**	**4 251**

(a) Includes other operating income of $13 million (2011: $(6) million) in the Upstream segment and $17 million (2011: $80 million) in the LNG Shipping & Marketing segment.
(b) Total operating profit includes the Group's share of pre-tax operating profits from joint ventures and associates.
(c) 2011 results have been re-stated to reflect the presentation of the majority of the businesses that comprised the Transmission and Distribution segment as discontinued operations and the change in the remaining reporting segments from E&P and LNG to Upstream and LNG Shipping & Marketing.
(d) Includes the Group's share of joint ventures and associates.

Earnings per share
(cents)



Dividends per share
(cents/pence)



Portfolio rationalisation

BG Group has completed or reached agreements on a number of transactions during 2012 which are expected to place the Group well ahead of its two-year capital release target.

In October, BG Group signed a HoA to sell certain interests in the QCLNG project to CNOOC for $1.93 billion. CNOOC will reimburse BG Group for its proportionate share of capital for the period from 1 January 2012 to the completion of the transaction, which is expected in 2013. In addition the HoA provides that BG Group will supply CNOOC with 5 mtpa of LNG, which, together with the 3.6 mtpa LNG sale agreement signed with CNOOC in March 2010, will make BG Group the largest supplier of LNG to China.

In November, BG Group completed the sale of its entire 60.1% holding in Comgás, originally announced in May, for Brazilian Reais 3.4 billion in cash ($1.7 billion) to Cosan S.A. Indústria e Comércio. The transaction also eliminated $1.0 billion of net debt from the Group's balance sheet.

In October, BG Group also announced it had reached agreement to sell its 65.12% interest in GGCL in India for approximately Indian Rupees 24.6 billion ($470 million) to GSPC Distribution Networks Limited, a subsidiary of Gujarat State Petroleum Corporation. The agreement, which is subject to regulatory approval, is expected to complete during the first half of 2013.

In September, BG Group completed the sale of the initial tranche of 20% equity in the Quintero LNG regasification facility in Chile for $176 million and is currently working towards the sale of its remaining 20% equity tranche. In addition, the Group completed the transfer of the associated project financing to third parties, realising additional cash inflow of $326 million.

In May, BG Group disposed of its 40% equity interest in two gas-fired power plants in the Philippines – Santa Rita and San Lorenzo – to its partner in the facilities, First Gen Corporation, for net cash proceeds of $360 million.

During the year, the Group also completed the disposal of BG Italia Power (BGIP) and signed agreements to sell its interests in MetroGAS S.A. and the Bolivia-to-Brazil pipeline. The sale of the Bolivia-to-Brazil pipeline was completed in January 2013, and the sale of MetroGAS S.A. is expected to complete in 2013.

Segmental reporting changes

Following the sale of, or agreement to sell, the majority of the Group's Transmission and Distribution (T&D) businesses, the T&D segment has been discontinued and comparative information has been restated. The remaining T&D businesses have been allocated to the Other segment.

BG Group has reorganised its remaining business segments such that the previous Exploration and Production (E&P) segment has been combined with the liquefaction operations associated with integrated Liquefied Natural Gas (LNG) projects, previously included in the LNG segment. These now form the Upstream business segment. The remaining businesses comprising the LNG segment, primarily encompassing the marketing and optimisation of LNG, and including interests in regasification plants, have been renamed 'LNG Shipping & Marketing'.

Upstream

Total operating profit of $5 464 million (2011: $5 440 million) was in line with the prior year, reflecting higher realised gas and liquids prices, increased production volumes and a favourable production mix, offset by higher operating costs and depreciation.

Production volumes were 3% higher at 240.5 mmboe, mainly as a result of new developments coming onstream in Brazil, Bolivia and Thailand.

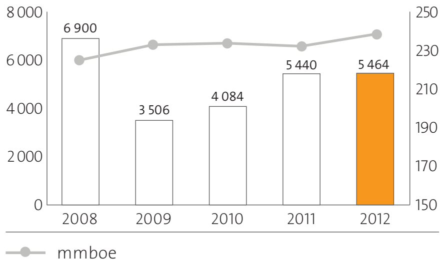
The Group's average realised gas price for the full year increased by 8% to 44.84 cents per therm, reflecting generally higher market prices and changes in the production mix.

Unit lifting costs* were $6.06 per boe in 2012 compared with $5.68 per boe in 2011. Unit operating expenditure* was $10.25 per boe in 2012 against $8.77 per boe in 2011, reflecting the impact of higher royalty costs arising from changes in the production mix and generally higher commodity prices. The unit depreciation charge increased by $1.39 per boe to $9.05 per boe as a combined result of the impact of new fields coming onstream and changes in the production mix.

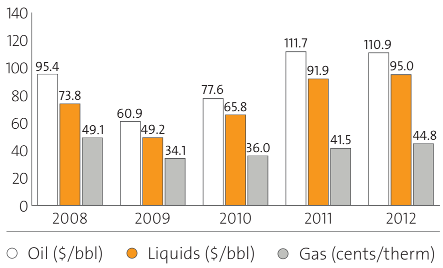
Gross exploration expenditure in 2012 was $1 220 million (2011: $1 617 million). Capitalised exploration expenditure included in gross exploration expenditure was $855 million (2011: $1 263 million).

BG Group's Upstream business also comprises LNG liquefaction. BG Group's share of operating profits from its interests in liquefaction businesses increased by 19% to $346 million (2011: $291 million), primarily as a result of lower planned maintenance at Atlantic LNG and reduced business development expenditure.

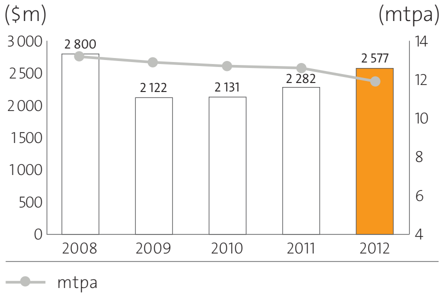
Upstream total operating profit and production volumes



Average realised prices

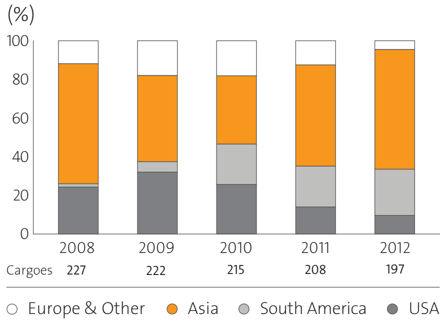


LNG Shipping & Marketing total operating profit and delivered volumes[a]

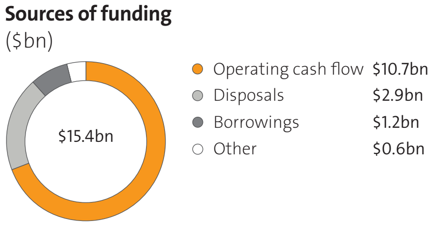


(a) Previously BG Group disclosed information based on managed volumes. See **Operating Review**, page 24, for further information on delivered volumes and **Glossary**, page 141.

LNG cargoes by destination

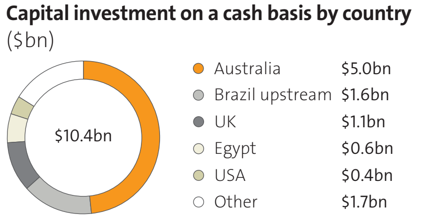


Sources of funding



For the year ended 31 December 2012.

Capital investment on a cash basis by country



For the year ended 31 December 2012.

LNG Shipping & Marketing

Total operating profit in 2012 increased by 13% to $2 577 million (2011: $2 282 million). This strong performance was a result of favourable market conditions and strong demand from Asia, particularly Japan. In 2012, 90% of the Group's LNG cargoes were delivered to markets outside the USA compared with 86% in 2011. Cargo deliveries to Japan increased from 40 to 67, reflecting record demand as all nuclear units were offline at the end of the second quarter, with only two back online by year end.

Business development on new projects and other costs totalling $132 million (2011: $97 million) were expensed.

Finance costs

In 2012, BG Group's net finance costs, before re-measurements and including the Group's share of finance costs for joint ventures and associates, were $128 million (2011: $141 million) and included interest received on tax refunds of $23 million (2011: $nil) and foreign exchange losses of $29 million (2011: $1 million).

Total net finance costs, including re-measurements and BG Group's share of finance costs from joint ventures and associates, amounted to $153 million (2011: $68 million).

Taxation

BG Group's effective tax rate for 2012 (including the Group's share of joint venture and associates' tax) was 44.5% compared with 44.0% in 2011. The effective tax rate for 2011 included a $277 million credit resulting from one-off adjustments in respect of tax positions in a number of jurisdictions and a $195 million charge principally due to the increase in UK North Sea taxation.

BG Group's total tax charge in 2012, before disposals, re-measurements and impairments and including the Group's share of taxation from joint ventures and associates, was $3 524 million (2011: $3 340 million).

*See **Glossary**, page 141.

BG Group's tax charge in 2012, including disposals, re-measurements and impairments and the Group's share of taxation from joint ventures and associates, was $3 171 million (2011: $3 262 million). In 2012, the tax charge on disposals, re-measurements and impairments included a $441 million credit (2011: $107 million) in relation to disposals and impairments and a $100 million charge (2011: $10 million) that arose on the fair value re-measurement of certain commodity contracts.

Capital investment
Capital investment on a cash basis in 2012 was $10 407 million (2011: $10 691 million).

Capital investment on a cash basis in Upstream in 2012 was $10 099 million (2011: $10 307 million), including $5 043 million (2011: $4 558 million) in Australia and $1 553 million (2011: $905 million) in Brazil.

Capital investment on a cash basis in 2012 in LNG Shipping & Marketing was $18 million (2011: $64 million) and for the Other segment and discontinued operations was $290 million (2011: $320 million).

BG Group's extensive capital investment programme continues, focused on Australia and Brazil, and other high capital efficiency projects. The Group expects to make capital investment on a cash basis of approximately $12 billion in 2013, including $5.5 billion in Australia and $2.7 billion in Brazil. Capital expenditure in Australia assumes the part disposal of the QCLNG project to CNOOC completes in mid-2013. The Group therefore expects capital investment on a cash basis in 2012 and 2013 to be, in aggregate, approximately $22.4 billion.

Cash flow
Cash generated by operations in 2012 increased by 10% to $10 715 million (2011: $9 773 million), primarily as a result of higher profits and a lower working capital cash outflow.

Net cash flow from operating activities included tax paid of $2 720 million in 2012 (2011: $2 791 million).

Dividends received from joint ventures and associates amounted to $151 million in 2012 (2011: $204 million).

Pre-tax proceeds from the disposal of subsidiary undertakings and non-current assets amounted to $2 939 million in 2012 (2011: $200 million). In 2012, this mainly comprised proceeds from portfolio rationalisation activities described on page 27.

Payments to acquire property, plant and equipment and intangible assets amounted to $9 974 million in 2012 (2011: $10 300 million). Capital expenditure on investments amounted to $429 million (2011: $246 million).

Cash flows from financing activities accounted for a net cash outflow of $209 million in 2012 (2011: $4 322 million inflow). This included $1 189 million net proceeds from the issue and repayment of borrowings (2011: $5 452 million). Cash flows from financing activities also included a $859 million outflow (2011: $772 million) in respect of dividends paid to the Group's shareholders and a $18 million outflow (2011: $136 million) in respect of dividends paid to non-controlling shareholders. Net interest paid amounted to $541 million (2011: $247 million).

Financing and capital
Total equity as at 31 December 2012 was $33 094 million compared with $29 675 million at the beginning of the year.

As at 31 December 2012, net borrowings were $10 624 million compared with $11 336 million as at 31 December 2011. The decrease in the year was primarily driven by disposals of gross borrowings of $1.1 billion and a net increase in cash and cash equivalents of $0.9 billion, partially offset by a net increase in the Group's borrowings of $1.2 billion.

As at 31 December 2012, BG Group's share of third-party net borrowings in joint ventures and associates amounted to approximately $590 million (2011: approximately $250 million). Including BG Group shareholder loans of approximately $0.7 billion (2011: $1.5 billion), the total Group share of these net borrowings was approximately $1.3 billion (2011: $1.7 billion). These net borrowings are taken into account in BG Group's share of the net assets in joint ventures and associates, which are accounted for using the equity method.

Details of the maturity, currency and interest rate profile of BG Group's borrowings as at 31 December 2012, and details of movements in the Group's net borrowings during the year are shown in note 18, page 109. Details of the Group's cash and cash equivalents as at 31 December 2012 are shown in note 16, page 108.

BG Group's principal borrowing entity is BG Energy Holdings Limited (BGEH), including wholly owned subsidiary undertakings, the majority of whose borrowings are guaranteed by BGEH (collectively BGEH Borrowers).

BGEH is the Group's principal credit-rated entity. As at 20 March 2013, BGEH had long-term credit ratings of A, ratings watch negative from Fitch Ratings Limited, A2, negative outlook from Moody's Investors Service Limited and A, negative outlook from Standard & Poor's; and short-term credit ratings of F-1, ratings watch negative from Fitch Ratings Limited, P-1, negative outlook from Moody's Investors Service Limited and A-1 from Standard & Poor's.

As at 31 December 2012, BGEH had aggregate committed bank multi-currency revolving credit facilities of $2.2 billion expiring in 2016 and $3.0 billion expiring in 2017. The total level of committed facilities was increased and maturities extended during 2012 in light of the Group's extensive investment programme. There are no restrictions on the application of funds under these facilities, which were undrawn as at 31 December 2012.

During 2012, BGEH also signed a $500 million credit agreement with Export Development Canada and obtained agreement for a $1.8 billion credit facility from the Export-Import Bank of the United States, the latter of which is subject to documentation. These facilities were both undrawn at 31 December 2012.

During 2012, BGEH Borrowers had a $15.0 billion Euro Medium-Term Note Programme, of which $8.4 billion was unutilised. This programme is expected to be renewed in 2013.

As at 31 December 2012, BGEH Borrowers had a $4.0 billion US Commercial Paper Programme and a $2.0 billion Euro Commercial Paper Programme, both of which were unutilised. In addition, BGEH had uncommitted borrowing facilities, including multi-currency lines, overdraft facilities of £45 million and credit facilities of $20 million, all of which were unutilised.

During 2012, capital markets issuance by BGEH Borrowers comprised $2.1 billion equivalent of hybrid bonds issued in three tranches and maturing in 2072.

In order to fund BG Group's growth programme, the Group proposes to continue to meet its financing commitments from the operating cash flows of the business, funding from ongoing portfolio rationalisation, existing cash and cash equivalent investments plus borrowings from a range of sources that are expected to include money and debt capital markets, government lending agencies and existing committed lines of credit.

PROFIT FOR THE YEAR

	2012			2011[a]		
	Business performance $m	**Disposals, re-measurements and impairments $m**	**Total results $m**	Business performance $m	Disposals, re-measurements and impairments $m	Total results $m
Total operating profit[b]	**8 047**	**(1 414)**	**6 633**	7 732	(306)	7 426
Net finance costs[c]	**(128)**	**(25)**	**(153)**	(141)	73	(68)
Tax[c]	**(3 524)**	**353**	**(3 171)**	(3 340)	78	(3 262)
Profit/(loss) for the year – continuing operations	**4 395**	**(1 086)**	**3 309**	4 251	(155)	4 096
Profit/(loss) for the year – discontinued operations	**–**	**1 304**	**1 304**	–	219	219
Non-controlling interest	**–**	**94**	**94**	–	81	81
Earnings – continuing operations	**4 395**	**(1 086)**	**3 309**	4 251	(155)	4 096
Earnings – discontinued operations[d]	**–**	**1 210**	**1 210**	–	138	138
Earnings	**4 395**	**124**	**4 519**	4 251	(17)	4 234
Earnings per share (cents) – continuing operations	**129.4**	**(31.9)**	**97.5**	125.4	(4.6)	120.8
Earnings per share (cents) – discontinued operations	**–**	**35.6**	**35.6**	–	4.1	4.1

(a) 2011 results have been restated to reflect the presentation of the majority of the businesses that comprised the T&D segment as discontinued operations.
(b) Includes the Group's share of pre-tax operating profits in joint ventures and associates.
(c) Includes the Group's share in joint ventures and associates.
(d) Includes profit/(loss) on disposal of non-current assets and impairments of $1 003 million (2011: $(45) million).

Disposals, re-measurements and impairments
The following items, described as 'disposals, re-measurements and impairments' are excluded from business performance as exclusion of those items provides a clearer presentation of the underlying performance of the Group's ongoing business. For a full reconciliation between BG Group's total results and business performance, see note 1, page 93. For further details of amounts comprising disposals, re-measurements and impairments, see note 4, page 100.

Disposals, re-measurements and impairments in respect of continuing operations in 2012 amounted, in aggregate, to a loss of $1 414 million before tax and interest (2011: $306 million), see note 1, page 93.

Of this, re-measurements included within other operating income in 2012 comprised a pre-tax gain of $237 million (2011: $108 million) in relation to mark-to-market movements on long-term commodity contracts and economic hedges. This comprised a non-cash charge of $55 million (2011: $119 million gain) attributable to the Upstream segment and a $292 million gain (2011: $11 million charge) attributable to the LNG Shipping & Marketing segment.

Disposals and impairments of non-current assets amounted to a loss of $1 651 million before tax (2011: $414 million) and $1 210 million post-tax (2011: $307 million).

In the second quarter of 2012, as a result of the weaker outlook for US natural gas prices, BG Group recognised a $1 800 million pre-tax impairment ($1 295 million post-tax) on certain US shale gas assets.

In June 2012, the Group disposed of 10% of its interest in the Karachaganak gas-condensate project for consideration of $651 million plus additional capacity in the Caspian Pipeline Consortium pipeline and the final settlement of cost recovery and other claims. This resulted in the recognition of a pre-tax profit on disposal of $404 million (post-tax $168 million).

In September 2012, the Group completed the sale of the initial tranche of 20% equity in the Quintero LNG regasification facility in Chile. This resulted in a pre-tax profit on disposal of $146 million (post-tax $110 million).

In the fourth quarter of 2012, a $154 million pre-tax impairment charge (post-tax $34 million) was recognised against upstream assets associated with the Gaupe field in Norway.

Other disposals, impairments and other items in 2012 resulted in a pre-tax charge of $247 million (post-tax $159 million).

In 2011, disposals and impairments included pre-tax impairment charges of $393 million (post-tax $314 million) against certain Upstream assets in Africa and Asia.

Other disposals and impairments in 2011 resulted in a pre-tax charge of $21 million (post-tax profit $7 million).

Profit for the year in respect of disposals, re-measurements and impairments includes a profit of $1 304 million (2011: $219 million) for discontinued operations. This comprises the post-tax results of those businesses and the post-tax profit or loss recognised on re-measurement to fair value less costs to sell and on disposal of the businesses. In 2012, it included profit/(loss) on disposal of non-current assets and impairments of $1 003 million (2011: $(45) million) of which $896 million related to the sale of Comgás.

Den Jones
Interim Chief Financial Officer

THE NARROWS CROSSING, GLADSTONE, QUEENSLAND, AUSTRALIA

Corrosion-protected pipe strings are welded and prepared before being pulled across The Narrows to Curtis Island.

PRINCIPAL RISKS AND UNCERTAINTIES

BG Group's approach to risk management
BG Group operates in an inherently complex, dynamic and risky industry. The Group's businesses around the world are exposed to a number of risks and uncertainties which could, individually or together with others, have a material adverse effect on the Group's strategy, business, performance, results, financial or trading condition and/or reputation. In turn, these may impact shareholder returns, including dividends and/or BG Group's share price.

Effective risk management is central to BG Group's business and underpins delivery of the Group's growth strategy. BG Group's objective in seeking to identify and manage the Group's risks is to deliver and protect shareholder returns over the longer term.

The Board is ultimately responsible for BG Group's risk management and internal control systems. It determines the nature and extent of the significant risks considered appropriate in pursuit of the Group's strategic objectives. Accountability for identifying and managing business risks lies with line management, with Board and GEC oversight.

Enhancing BG Group's Enterprise Risk Management Framework in 2012
The aim of the Group's risk management strategy is to promote enterprise-wide risk management through an integrated framework that considers the impact on the Group's business of strategic, financial and operational risks.

Following the appointment of a Chief Risk Officer in late 2011, the Risk Management Committee was established in 2012, as a sub-committee of the GEC, in order to review and formulate management's recommendations to the Board on risk and risk management.

One of the key components of BG Group's overall Enterprise Risk Management (ERM) Framework is the Business Risk Management Process (BRMP), which is mandatory and operates throughout the Group. The BRMP facilitates the identification, assessment and treatment of project delivery and operational risks within assets and central functions, and enables their communication and analysis within the Group.

Other key components of the ERM Framework are the Cash Flow at Risk (CFaR) and Earnings at Risk (EaR) models, which enable the Group to quantify the probability ranges associated with operational performance, project delivery and market variables. Analysis based upon these results helps to shape BG Group's business decisions, including financing, acquisitions and divestments, portfolio structure, project sanction and hedging. Analysing future cash flow and earnings risk informs the Group's credit and financial risk management decisions and is a key input to the Group's ongoing portfolio and capital optimisation processes.

MANAGING THE GROUP'S PRINCIPAL RISKS

The principal risks on which the Board has focused in 2012 are outlined below.

Project delivery and operational performance
Successful delivery of major projects is material to BG Group's future growth, and substantial delay to, or failure to complete, these projects constitute significant risks to the Group's prospects, reputation and financial position. Delivering major growth projects in Australia and Brazil safely, to schedule and on budget, while optimising operational performance and output from existing producing base assets, remains the critical success factor for the Group.

For 2013, BG Group has provided a production outlook of 630-660 kboed. The Group has set out a number of quarterly milestones that can be used to judge progress against this range. Not all of the milestones are within BG Group's control and actual 2013 production may be affected by other events or factors. Further details are set out on page 21.

Production during 2012 from **Egypt** was lower than forecast as the Phase 7 compression project was less effective than expected in arresting reservoir decline. The compression project also led to higher water production than expected. BG Group has put in place a four-point recovery plan, including: improved predictability of field performance and reservoir data; a series of workovers to increase production from existing wells; a new phase of development; and further, near-field exploration. Production will decline in Egypt until the new wells in the next phase of development for the West Delta Deep Marine field, Phase 9a, come onstream in 2014. These wells will provide additional information regarding reserves and reservoir performance.

In **Brazil's** Santos Basin, the Group continued to make good cost and schedule progress in 2012. Further details can be found on page 22. BG Group continues to work with the operator, Petrobras, to ensure safe and successful delivery of the project. The development of the Santos Basin resources is a highly complex project and significant technical, operational, financial and commercial challenges will remain as the various discoveries are brought onstream and matured.

In **Australia**, substantial progress was made during the year on the QCLNG project, with the completion of a number of important milestones that provide the Group with confidence that the project remains on budget and on schedule to deliver first LNG in 2014. While the estimated underlying capital expenditure (capex) for this project for the period 2011-2014 rose 19% to $20.4 billion, the fact that 94% of this revised budget is now covered by contracts and other agreements provides a greater degree of certainty on costs for the remainder of the project. Notwithstanding this progress in 2012, a number of cost, schedule and commercial risks remain due to the overall project's inherent scale and complexity, involving the integration of three major projects in themselves: upstream development (drilling, compression facilities and water treatment plants); the export pipeline from the coal seam gas fields to the Queensland coast; and the construction and commissioning of the LNG plant on Curtis Island.

Credit
BG Group is exposed to political and economic risk events that may cause the non-payment of receivables.

Following an agreement signed with Egypt General Petroleum Corporation (EGPC) in 2011, the repayment of the Group's receivable balance in respect of Egyptian domestic gas sales is partly linked to production levels, in particular the volume of gas allocated for export as LNG. As at 31 December 2012, this receivable balance was $1.3 billion, of which $0.6 billion was overdue. Under repayment terms recently negotiated with EGPC, and based upon post-investment forecast production levels, the existing $1.3 billion receivable balance is expected to be fully recovered by the end of 2015, and all future receivables would be current by 2017. However, the recoverability of the receivable balances within these timeframes, and the full realisation of the carrying value of the Group's significant Egyptian operations, depend on the business environment in Egypt, together with the outcome of negotiations with EGPC, reservoir performance, the Group's continued investment plans and the successful operational delivery of those plans.

Capital investment programmes
BG Group's growth plans are based on successful execution of its programme of major capital projects which will require significant and continued capital investment during the period. Related to this, the Group's expected capital spend for 2013, on a cash basis, is estimated at some $12 billion. As such, the execution of the Group's ongoing funding strategy will remain a continued area of focus for the Board as BG Group continues to progress through the heaviest investment programme in its history.

Funding for the Group's major capital projects will need to be underpinned by strong cash flows from operating assets, as well as access to traditional and alternative sources of funding (such as debt capital markets, export credit agencies, development banks, project finance and others), as required. To this end, BG Group took appropriate measures in 2012 to strengthen its balance sheet, including financing activities, and an ongoing portfolio rationalisation programme that included the signing of a Heads of Agreement (HoA) for the partial sell down of QCLNG. As at 31 December 2012, agreements had been signed or concluded that are expected to release $8.1 billion of total capital (net sales proceeds, removal of net borrowings and capital reimbursement and avoidance) by the end of 2013. Anticipated proceeds of sale upon completion of the fully termed transaction agreements expected under the HoA for the partial sell down of QCLNG represent a material contribution to this $8.1 billion total capital release and therefore constitute a key sensitivity for the Group's capital requirements and gearing. Further details of the HoA are set out in the **Financial review** on page 27.

While portfolio rationalisation activity has helped to de-risk BG Group's ability to fund its major capital investment programme, there is a consequent increase in portfolio concentration which further emphasises the critical role of assets in Australia and Brazil in shaping the Group's future prospects, performance and value.

In 2012, the Group's credit rating was put on a negative credit outlook by Standard & Poor's and Moody's Investors Service Limited and on negative credit watch by Fitch Ratings Limited. A downgrade in the long-term credit rating of the Group could adversely affect the Group's ability to access finance on attractive terms.

Global economy

2012 saw prolonged uncertainty in the global economy. The crisis in the eurozone continued to dominate the economic landscape, with the result that growth and trade were negatively affected. The USA and China both felt the effects of the slowdown, recording lower growth than expected in the first half of the year. Commodity prices were also affected by the uncertainty, with benchmark oil prices moving within a 25% band over the year. Henry Hub (a benchmark natural gas price) fell below $2 per million British thermal units (mmbtu) before recovering somewhat, reaching nearly $4/mmbtu. Although the prospects for stronger economic growth in the USA and China now appear more positive and an agreement has been reached in the USA that at least defers the impact of the so-called 'fiscal cliff', uncertainty as to how US fiscal policy will evolve in the medium term, as well as the eurozone sovereign debt crisis, means that the period of increased global economic uncertainty is set to continue in 2013.

In reaction to economic and commodity market changes, BG Group has continued to optimise its portfolio. This included scaling back onshore drilling activity in the USA in response to lower natural gas prices which led to a non-cash, post-tax impairment of $1.3 billion in the second quarter of 2012. In addition, the Group continued to focus LNG sales and marketing efforts on the more resilient markets of Asia and Latin America. More than 85% of BG Group's LNG volumes were sold into these markets in 2012 and a HoA for long-term LNG sales was signed with CNOOC this year.

Social and political change in North Africa

2012 saw significant and continued social and political change in some regions where BG Group operates, most notably in North Africa. The potential impacts of such social and political change are broad and, in a worse case, could expose the Group to changes in the nature of upstream licensing arrangements. The impact of any such events on the long-term development of the Group's businesses in North Africa (and Egypt in particular), and on the Group's current and future revenues, could be material. As such, political risk (and crisis management and emergency response plans) remain high on the agenda for the Board and the GEC.

IMPORTANT NOTES

Risk identification and assurance

While the Group has developed processes for identifying and managing risk, these processes provide reasonable, rather than absolute, assurance and are designed to help manage, rather than eliminate, risk. It is not possible to be certain that such processes will be successful in managing these risks effectively or at all, not least because not all of these risks and uncertainties are within BG Group's control. Risk management processes are therefore no guarantee that all risks have been identified, or will not materialise, or that associated losses will not occur. In addition to the principal risks and uncertainties listed here, the Group may also be affected adversely by other risks as yet unforeseen or currently considered not to be material. Shareholders should consider the principal risks and uncertainties described in this section in conjunction with the **Legal notice** set out on page 145.

Joint ventures

BG Group standards apply across all wholly owned businesses and joint ventures operated solely by the Group. Where the Group works in joint ventures in which it does not exercise sole control, it may have more limited influence over ventures and how they are managed. Management of these non-controlled joint ventures (NCJVs) may vary from BG Group's own management and operating standards, controls and procedures (including in relation to health, safety and environmental risks, as well as ethical conduct and technical and operational matters). Nonetheless, BG Group endeavours to influence these ventures (where appropriate) to achieve standards, controls and procedures equivalent to the Group's own.

Insurance

Some of the major risks involved in BG Group activities cannot, or may not, reasonably and economically be insured. Risks associated with the energy industry include: exposure to personal injury and loss of life, asset failures, release of hydrocarbons, environmental issues and natural disasters, together with associated consequential losses, any of which may have an adverse effect on business performance. The transfer of risks to the insurance market may be affected and influenced by constraints on the availability of cover, market appetite and capacity, pricing and the decisions of regulatory authorities. BG Group may incur significant losses from different types of risks that are not covered by insurance.

The Group maintains an insurance programme to provide some mitigation against significant losses, which, as is consistent with general industry practice, includes certain limited cover for physical damage, removal of debris, control of wells, re-drill, sudden and accidental pollution, and employer's and third-party liabilities. Policies purchased are subject to certain limits, deductibles and specific terms and conditions. In addition, insurance premium costs are subject to changes based on a company's loss experience, the overall loss experience of the insurance markets accessed and capacity constraints. Insurance is, by its nature, contingent. As such, any particular insurance claim made might not result in a recovery from insurers.

PRESENTATION

The principal risks and uncertainties set out on the following pages are in alphabetical order and are not presented in order of potential magnitude, materiality or probability of occurrence.

ASSET INTEGRITY, SAFETY, HEALTH AND SECURITY

Oil and gas exploration and production activities carry significant inherent risks. Major accidents or incidents may occur, resulting in: possible loss of life of, or injury to, members of the public, employees of BG Group or the Group's contractors; damage to the environment; and damage and/or loss of certain facilities, with an associated loss or deferment of production and revenues and/or delay or cancellation of exploration activities. The Group may also incur costs associated with mitigation, recovery and compensation.

BG Group is also subject to health and safety laws in numerous jurisdictions around the world. Failure to comply with such laws could significantly impact the Group's reputation, which could have a subsequent effect upon the willingness of stakeholders to work with the Group, or affect its licence to operate in any particular territory. Any new laws and/or regulations may result in BG Group having to introduce new operating procedures or even to curtail or cease certain operations or implement temporary shutdowns of facilities, which could diminish its productivity and materially and adversely impact the results of operations, including the Group's profits.

BG Group is exposed to security threats. Acts of terrorism, piracy or civil unrest, which may affect the Group's employees and contractors, plants and offices, pipelines, transportation or computer systems, could severely disrupt its business and could cause harm to people and the environment. Attacks on the Group's computer networks and breaches of information security may also result in the loss of commercially sensitive data.

In 2012, there were three events of particular note in this risk area. Two contractors working for BG Group died as a result of separate incidents: one in the UK North Sea; and one in the USA (please see page 8). In addition, the Elgin/Franklin asset in the UK North Sea (in which BG Group has an equity stake but which it does not operate) suffered a significant well integrity incident leading to a major release of natural gas. Although there were no significant injuries, the resultant shutdown of the facility for essential repair and maintenance work caused production to cease and BG Group's cash flow and profit were adversely affected in 2012 and will continue to be impacted in 2013.

The Group seeks constantly to improve controls and barriers designed to prevent incidents occurring or to mitigate their impact. Contractor safety management is recognised as an essential part of good safety management, and the Group seeks to ensure that its worldwide contractor community understands and applies the Group's safety culture and processes to their own operations. In seeking to reduce to as low as reasonably practicable the risk of asset failure, it is mandatory for every operated asset to have Safety Cases in place that identify and describe the hazards associated with that asset, and to have measures in place to manage those hazards.

CAPITAL REQUIREMENTS, LIQUIDITY AND INTEREST RATES

BG Group's ability to deliver its business and growth objectives is dependent on its ability to fund capital intensive development projects, at present most notably in Australia and Brazil.

The Group has made, and plans to make, significant capital investments. These are estimated at Reference Conditions to be $12 billion on a cash basis during 2013.

The Group's capital requirements depend on a broad range of factors, including commodity prices, currency exchange rates, revenue from operations, acquisitions and proceeds realised from disposals. Some of these factors are (wholly or partially) outside the Group's control and may cause capital requirements to vary materially from planned levels. Increases in BG Group's capital requirements could adversely affect the Group's business and financial performance, including gearing and funds from operations, and BG Group's ability to access finance on attractive terms may be constrained. A credit or debt crisis affecting sovereign states or unions, banks, financial markets and/or the economy more generally could affect the Group's ability to raise capital.

BG Group is also exposed to liquidity risks, including risks associated with refinancing borrowings as they mature, and the risk that financial assets cannot readily be converted to cash without loss of value.

BG Group's financing costs may be significantly affected by interest rate volatility.

In the course of 2012, BG Group issued three tranches of hybrid bonds totalling $2.1 billion (equivalent), maturing in 2072, and continued to release capital through the portfolio rationalisation programme. As at 31 December 2012, the Group had cash and cash equivalents of $4.4 billion.

In 2012, the Group's committed bank revolving credit facilities, which are held with a diversified group of major banks, were increased and expiry dates extended. These facilities totalled $5.2 billion, with $2.2 billion expiring in 2016 and $3 billion in 2017, and were undrawn as at 31 December 2012. These facilities are used as back-up liquidity to fund operating and capital requirements.

In addition, in order to diversify and extend its potential sources of funding, the Group obtained $2.3 billion of credit facilities from export credit agencies during 2012, $1.8 billion of which is subject to documentation. These facilities were undrawn as at 31 December 2012.

BG Group invests surplus funds primarily in short-term, highly liquid investments that are readily convertible to cash. The Group imposes limits on the amount of borrowings that mature within any specific period.

BG Group's interest rate risk management policy requires that substantially all borrowings are at a floating rate. Exceptions to this policy require approval from the Group's Finance Committee. In the light of the current low interest rate environment, the Finance Committee has approved the fixing of a substantial proportion of the Group's debt.

CLIMATE CHANGE

Policies and initiatives at national and international level to address climate change may affect business conditions and demand for various energy sources in the medium to long-term. Worldwide policy and regulatory actions are driving targeted reductions in greenhouse gas (GHG) emissions which will in turn influence the future of the global energy industry. Policy approaches that promote the use of alternative energy sources, such as renewables and nuclear power, may affect the Group's ability to maintain its position in key markets.

Additionally, new regulatory regimes intended to establish emissions trading schemes or GHG emissions taxes could alter hydrocarbon production economics.

In 2012, BG Group became subject to carbon taxes/pricing in Australia via the Carbon Pricing Mechanism under the Clean Energy Legislative Package in addition to the existing European Emissions Trading System in the UK.

COMMODITY PRICES

BG Group's cash flows and profitability are sensitive to commodity prices for crude oil, natural gas, LNG and other hydrocarbons.

The Group's exposure to commodity prices varies according to a number of factors, including the mix of production and sales. Among the commodities, oil prices are by far the dominant driver of BG Group's profitability. While industry costs tend to rise or fall with commodity prices in the long term, there is no guarantee that movements in sales prices and costs will align in any year. This can put pressure on investment and project economics which depend in part upon the degree and timing of commitments in line with particular cost structures.

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 energy portfolio, BG Group may undertake commodity hedging and trading activities, including the use of futures contracts (financial and physical), forward-based contracts and swap contracts. The standalone value of hedges can move significantly, potentially increasing the volatility of cash required for margin calls and the accounting profit recognised within a particular quarter.

Demand for crude oil, natural gas, LNG and other hydrocarbons is dependent upon a number of macroeconomic factors and prices can vary significantly depending upon the supply and demand balance in each market. BG Group's sensitivity to commodity prices arises from the purchase of third-party supply, the direct sale of commodities into spot markets and the indexation terms in longer-term sales contracts. The Group's portfolio also includes a range of long-term gas contracts that are not directly linked to short-term changes in commodity prices. The Group's long-term contracted LNG supply is predominantly priced on a Henry Hub-linked basis, with value-sharing mechanisms for sales made to premium markets. Additionally, in 2012, BG Group signed a long-term LNG purchase agreement with Sabine Pass Liquefaction LLC, priced at a premium to Henry Hub.

BG Group's LNG position is substantially unhedged and earnings/profitability of the LNG Shipping & Marketing business segment could be more sensitive to movements in commodity price as a result. The majority of BG Group's long-term contracted LNG sales have been priced on a predominantly oil-linked basis. The remainder of the Group's long-term contracted and short-term LNG sales are priced on a Henry Hub-linked or spot market basis.

Potential variations in commodity prices, along with other major risk factors, are considered as part of corporate funding and strategic decisions. Projects and investments are screened against a wide range of external sensitivities, including benchmark commodity prices. Insights into commodity price risks are enhanced through cash flow at risk and earnings at risk models, which consider the combined impact of a variety of market and operational risks on BG Group's business.

CREDIT

BG Group's exposure to credit risk takes the form of a loss that would be recognised if counterparties (including sovereign entities) failed or were unable to meet their payment or performance obligations.

Management of credit risk is fundamental not only to BG Group's financial value but also to the Group's ability to deliver its core business. BG Group could experience losses through its various activities with sovereigns, banks and commercial entities. These include: commodities sales; trading and hedging; treasury derivatives and cash investments; and partnerships and arrangements with contractors and suppliers.

The Group is also exposed to political and economic risk events that may exacerbate country risk and which may cause non-payment of foreign currency obligations to BG Group by governments or government-owned entities, or which may otherwise impact successful project delivery and implementation. In Egypt, as at 31 December 2012, the Group's receivable balance with EGPC was $1.3 billion, of which $0.6 billion was overdue.

The Group considers its credit portfolio and appropriateness of limits, which are monitored centrally for individual and related concentration risk, and mitigation may be considered, where appropriate, to diversify or reduce risk profile.

The financial and credit condition of counterparties (including sovereign entities) is considered prior to entering into commercial contracts, trading sales agreements, swaps, or futures and options contracts.

Contractual or other forms of protection or mitigation may be sought, including cash collateral, letters of credit, and security over asset 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. To mitigate risk on physical commodity trading, the Group seeks to put in place bespoke master netting agreements or standard arrangements appropriate to the local market. Further information can be found in the **Financial statements**; see note 19, page 111.

DELIVERY OF PROJECTS

Risks to delivering BG Group's projects safely, within scope, cost and budget, are many and varied. Successful delivery of major projects is material to the Group's future growth and substantial delays to, or failure to complete, these projects constitute significant threats to the Group's prospects, reputation and financial position. Significant risks include adverse or extreme weather conditions, sub-surface uncertainties, inadequate scope definition at sanction, insufficient availability or ineffective deployment of resources, competing demands for contractor resources and services, the performance of BG Group's NCJV partners and/or contractors, the uncertainties arising from the application of new technology, commercial (re-)negotiations, conflicts of objectives and priorities with partners or other stakeholders, environmental factors, permitting, compliance with governmental and regulatory requirements, and a deterioration of macroeconomic conditions. In cases where BG Group is not the operator in a NCJV, delivery of projects may be influenced by, but is not fully under the control of, BG Group.

Well engineering, including the drilling, completing or operating of wells, is often uncertain and may be subject to delays, curtailment or cancellation through a variety of factors including unexpected drilling conditions or irregularities in geological formations (pressure, temperature or structure).

BG Group has well-established business processes and standards designed to optimise design and execution strategies and mitigate project risks. Project delivery is subject to various assurance activities prior to the final investment decision (FID) and includes: feasibility studies; concept assessment and selection; and scrutiny of scope definition, project planning, contractor and contracting strategies, constructability and operability reviews, commercialisation options, and risk management and stress-testing of project economics, including against a range of commodity prices, input costs and schedule assumptions.

BG Group has an ongoing programme focused on delivering optimal project management, clear accountabilities and the most appropriate project management capability across the portfolio. Performance is assured against Group-wide mandatory technical Standards, and capital and cost discipline is applied to protect value. The Group seeks to ensure effective partner and stakeholder engagement and alignment across all stages of project delivery to ensure successful outcomes.

Further detail on the specific project delivery risks facing the Group is provided on page 32.

ENVIRONMENT

BG Group's activities may adversely affect the environment through the release of hydrocarbons or chemicals, noise pollution, management of produced water, the visual impact of gas and oil infrastructure and the emission of pollutants. Release of hydrocarbons may result in significant fines, liabilities or other losses. Onshore or marine ecological habitats may be adversely impacted (including loss of licences) by drilling, well operations, pipelines and other infrastructure, with a resulting effect on biodiversity. Regulatory measures to tackle loss of biodiversity, together with policies intended to protect local habitats, may limit access to gas and oil in areas deemed to be environmentally sensitive.

There are a range of stakeholder concerns related to the production of unconventional natural gas using hydraulic fracturing techniques. These include the potential for contamination or depletion of local water sources, the long-term impact upon the natural environment and the possibility that unconventional operations may cause minor seismic events. In addition, local communities may raise concerns in relation to the impact on their land and their property rights. As a result, there is a risk that new laws or regulations in this area may be costly to the business, attract adverse publicity or ultimately restrict or prohibit the successful delivery of projects.

While no major events occurred in 2012, BG Group's ability to deliver its plans in Australia depends upon effective treatment and disposal of the water produced. Similarly, in Brazil, the Group's oil spill exposure grows as more oil is produced in the Santos Basin and shuttle tanker operations increase significantly.

BG Group is focused on developing processes to minimise the impact of its operations on local environments and habitats.

EXCHANGE RATES

BG Group reports its financial results in US Dollars. However, a portion of the Group's operating cash flows, capital expenditure and income taxes accrue in (and asset and liability positions are held in) other currencies, including the Australian Dollar (primarily QCLNG project capital expenditure), Brazilian Real (primarily Santos Basin developments capital expenditure) and Pound Sterling.

BG Group is currently spending a large proportion of QCLNG project expenditure in Australian Dollars. The US Dollar equivalent cash expenditure will be dependent on the US/Australian Dollar exchange rate. A 20% appreciation in the Australian Dollar accounted for approximately half the increase in published capex guidance for the QCLNG project for the period 2011-2014 to $20.4 billion.

BG Group denominates a portion of its after-swap borrowings in Pounds Sterling, with the balance of after-swap borrowings denominated in US Dollars. The Group may hedge certain expected cash flows into US Dollars. Currency hedging may also be undertaken in certain cross-border transactions.

Overall, BG Group manages its cash and profit sensitivity to exchange rates as part of an ERM Framework. Specifically, it is recognised that exchange rates and commodity prices are correlated, such that low oil prices tend to coincide with a lower capital expenditure when expressed in US Dollars, and vice versa. This leads to an expected offset between the cash variations arising from oil price movements and the cash variations arising from exchange rate movements. As such, in general, the Group would not expect to hedge its sensitivity of cash flows to exchange rates.

LICENCE TO OPERATE AND THE POLITICAL CONTEXT

Governments, legislators and/or regulators may act or intervene (or fail to act or intervene) in a way that diminishes or destroys value for BG Group. Governments may expropriate assets or property, or alter fiscal or other terms governing oil and gas industry operations, for example, through the imposition of higher taxes, royalties or increased local content or domestic market requirements, especially where they face financial pressures. Governments may also act (or fail to act) in a way that delays project schedules or increases costs, thus eroding value.

BG Group needs to work in partnership with governments and national oil companies in order to secure access to new resources and to ensure the successful monetisation of existing resources. In such cases, political and socio-political considerations can influence decision making.

Public activism, including among previously disenfranchised or disengaged populations in certain territories, has also become more prevalent and, using new channels like social media, can create significant pressure on governments. These developments have increased the likelihood of unforeseen government, as well as legal or regulatory, changes in response to public pressure.

BG Group, therefore, also faces increased risk if it does not recognise, and take account of, the interests of the communities in the areas where it operates, or if it operates in an unethical manner in its relationships with those communities. Across the full range of political and civil society stakeholders, BG Group needs to create, maintain and strengthen its licence to operate in every country where it does business.

In constantly changing political environments, BG Group's risk exposure in this area is continuous and evolving. In 2012, for example, the political and business environments in parts of North Africa remained unstable, state elections in Queensland included debate around the CSG industry, US energy policy featured in the presidential election campaign, and governments and parliaments in East Africa paid increasing attention to the growth of their hydrocarbons industries.

In common with the rest of the extractive industry sector, BG Group can expect to see this area of risk increase over coming years, putting an ever greater premium on maintaining a strong and broad licence to operate.

OPERATIONAL PERFORMANCE

BG Group's production volumes, and therefore revenues, are dependent on the continued operational performance of its producing assets. Those producing assets may not deliver the volumes assumed in the business plan for a number of reasons, including limiting factors relating to reservoir and well performance, and facility, export and commercial capacity. Unplanned outages may also occur, for example, due to equipment failure or human error, while planned shutdowns may take more time than expected to complete. Other factors affecting operational performance include asset integrity and health, safety, security and environment (HSSE) incidents, exposure to natural hazards such as extreme weather events, and political or security events that disrupt the ability of staff and contractors to work. In cases where BG Group is not the sole operator of an asset, operational performance may be influenced by, but is not fully under the control of, BG Group. Furthermore, performance may be impacted adversely by sub-surface and well conditions that mean production at lower than expected rates.

In 2012, instances where risk materialised for BG Group in this area included the decline in production from WDDM in Egypt due to reservoir and well performance issues, and the Elgin/Franklin shut-in due to well integrity issues.

ORGANISATIONAL CAPACITY

BG Group's performance, operating results and future growth depend on its ability to attract, retain, motivate and organise people with the appropriate level of expertise and knowledge, as BG Group pursues its objectives. Competition for talented, and suitably experienced and qualified, specialists in upstream exploration and production is intense.

BG Group takes a systematic approach to resourcing to ensure it can meet its long-term human resource needs, operating short and long-term resourcing demand models to predict and manage the people requirements that underpin the Group's business plans. The Group aims to identify the best people through succession planning and talent management, coupled with effective recruitment.

REGULATION, LEGISLATION AND LITIGATION

The oil and natural gas industry is subject to legislation, regulation and intervention by governments worldwide in matters such as financial reporting; the award of exploration and production interests; the imposition of specific drilling obligations; access to facilities; environmental, ethical conduct and health and safety controls; decommissioning; and regulated commodity trading.

Any non-compliance with applicable laws and/or regulations (or new or changed interpretations or enforcement of existing laws or regulations) could lead to regulatory investigations, litigation and/or legal or regulatory sanctions (including financial penalties and the curtailment or cessation of operations), as well as reputational damage. In addition, in some countries, governments are facing greater pressure on public finances, leading to a risk of increased taxation.

BG Group expects to continue to incur capital and operating expenditure to comply with increasingly complex laws and regulations worldwide, particularly in relation to environmental protection and health and safety. BG Group's business activities are conducted in many different countries and are therefore subject to a broad range of such legislation and regulations. The cost and risks of compliance can therefore be significant.

If BG Group employees, or anyone working on its behalf, violate laws and regulations in jurisdictions in which the Group operates (including laws and regulations with extraterritorial application), the Group may face reputational damage and be subject to penalties, including fines or loss of operating licences.

BG Group faces the risk of contractual disputes and litigation in all the countries in which it operates. BG Group continues to manage litigious disputes in many different countries (see note 24(E) to the **Financial statements** on page 121).

The risk of corruption is heightened within some of the countries in which the oil and gas industry is active. BG Group's future portfolio composition may change such that corruption risk increases over time. BG Group does not tolerate corruption in any form, whether direct or indirect, and is bound by the requirements of the UK Bribery Act 2010, the US Foreign Corruption Practices Act and local legislation relevant to the Group's assets in the territories in which they operate. Corruption risk is managed by BG Group through an anti-corruption compliance programme across all of BG Group's business activities. The ability to implement the anti-corruption compliance programme is subject to BG Group's control and influence over its business activities, which is less in the Group's non-operated and non-controlled joint ventures. The anti-corruption compliance programme includes training, policies and procedures, risk management, due diligence, contract management, and independent monitoring. In addition, BG Group's Speak Up Policy sets out the whistleblowing and investigations framework which is the basis for how allegations of breaches of laws, regulations and the Group's Policies and Business Principles that are reported to BG Group are handled.

BG Group also has a competition law/anti-trust compliance programme which seeks to ensure that anti-competitive conduct is avoided and any suspected anti-competitive conduct is promptly identified and investigated, with appropriate action taken.

RESOURCES DISCOVERY, ESTIMATION AND DEVELOPMENT

There may be insufficient addition of new resources and reserves to enable future economically viable production and to fuel production growth. Competition for exploration and development rights, and access to gas and oil resources, is intense. Where such rights are awarded, there is no guarantee that hydrocarbons in commercially viable quantities will be discovered.

Maturation of any discovered resources also may not optimise value. The quantity and quality of geological, technical and economic data may ultimately prove to be insufficient or inaccurate for estimating resources and reserves, and the ability to interpret that data appropriately may be limited. Insufficient pre-sanction field appraisal may lead to sub-optimal project sanction and/or field development plans.

Exploration and development activity may also be constrained by unexpected drilling conditions, poor availability of suitable rigs and restrictions on the availability of suitable human or technical resources.

Gas and oil reserves and resources cannot be measured precisely, and the estimation process involves subjective judgements. In joint ventures, estimates may not align with the estimates of total reserves and resources of partners (including operators).

Estimates of reserves and resources may be subject to downward revision. A decline in the price of oil or gas may make reserves and/or resources, previously deemed to be recoverable, uneconomic to develop.

Furthermore, changes to gas and oil prices in fields subject to production sharing contracts may result in revised entitlements.

In addition, actual reservoir performance may be lower than estimated. Changes in tax rules and other government regulations may also result in reserves or resources becoming uneconomic.

BG Group also faces risks from unfavourable unitisation decisions wherever the Group holds an interest that may extend outside the boundaries of concession or licensing areas. Unitisation is technically and commercially complex and involves not only a negotiation based on interpretation of data, but also an in-depth knowledge of relevant local laws and legislations. Unitisation decisions could also work in the Group's favour.

In 2012, risk associated with changes in oil and gas prices materialised in the US asset, where a non-cash post-tax impairment charge of $1.3 billion was recorded in the second quarter as a result of the weaker outlook for US natural gas prices. In accordance with applicable SEC definitions, the prevailing low Henry Hub gas prices during 2012 also led to a reduction of bookable reserves in the Group's US assets.

SUSTAINABILITY

BG GROUP'S STRATEGY ON SUSTAINABILITY PLACES A STRONG EMPHASIS, WHEREVER THE GROUP OPERATES, ON DEVELOPING AND MAINTAINING A BROAD LICENCE TO OPERATE, BUILT ON PARTNERSHIPS WITH STAKEHOLDERS.

Sustainability in BG Group
For BG Group, sustainability is a prerequisite for long-term performance and value protection for the Group's shareholders. BG Group's commitment to sustainability is based on the robust application of its Business Principles. Operating safely is, and always will be, the Group's first priority. The Group's belief is that all injuries are preventable, but BG Group's commitment to safety goes broader and directly engages the interests of the Group's stakeholders. A failure to operate safely can also mean environmental damage and disruption to communities. For an oil and gas company, sustainability is, in the first instance, about safe operations.

Similar considerations apply to BG Group's Business Principles in other areas, such as ethical conduct, environmental stewardship, human rights and the way the Group treats its employees. BG Group's approach is set out in its Policies and Standards. These are commitments that BG Group makes about the way it operates everywhere in the world, irrespective of location and local practice.

But sustainability goes beyond the rigorous and thorough application of these Principles. It also means scrupulous attention to the expectations and interests of BG Group's stakeholders.

BG Group believes that business success must be rooted in partnerships with its stakeholders, and that the Group must be ready to consult with, and account to, those stakeholders for the decisions taken about activities and operations. Without support from stakeholders, BG Group's achievements will be unsustainable.

The challenges in this area are becoming more complex as the stakeholder landscape is changing:

- Throughout the world, citizens and electorates, particularly the young, are increasingly communicating and mobilising through social media rather than established and formal political processes. This has given great influence to activist minorities.
- These groups have growing expectations of governments, as a result of improved education, more information about the lives of others through the internet and 24/7 media, and a strong sense of entitlement to have their views heard.
- Governments, in many circumstances, find it difficult to meet those expectations, whether because of fiscal constraint or because the challenges of globalisation and transnational issues, such as climate change, energy security, low-cost foreign competition or migratory flows, have constrained their room for manoeuvre.

Companies like BG Group will always need to work closely with governments which generally own the resources for which the Group is exploring and producing. Governments will often be BG Group's partners and their decisions will determine how the Group develops and delivers projects.

BG Group recognises not only the support of governments but of the stakeholders who influence them and their policies, and whose actions can bring sudden and unpredictable change to countries in which the Group works.

That is why BG Group's strategy on sustainability places a strong emphasis, wherever the Group operates, on developing and maintaining a broad Licence to Operate strategy, built on partnerships with stakeholders: in governments, of course, but also more broadly across the political spectrum, as well as in communities, non-governmental organisations (NGOs) and civil society. BG Group's aims are: to create a sound foundation of consistent values for the decisions the Group takes; to assess correctly and manage successfully political and social risks; and to maximise the benefits that will arise from responding proactively and imaginatively to the expectations and challenges set by stakeholders.

How sustainability is delivered
Every BG Group employee is responsible for sustainable working. Every BG Group operation must fulfil the Business Principles and comply with the Group's Standards. Five functions set Standards and monitor and measure key areas of non-financial performance. These functions are: Environment; Ethical Conduct; Human Resources; Safety, Health and Security; and Social Performance.

The BG Group Value Assurance Framework also sets out the requirement for every project to take into account a range of sustainability considerations, at key stages. In this way, sustainability considerations are embedded in projects, from when an opportunity is first identified and assessed, to final delivery.

Examples of how BG Group embeds sustainable working include:

- incorporating environmental considerations in investment and business decisions;
- including non-financial factors in supplier screening and procurement;
- carrying out risk assessments, such as environmental and social impact assessments;
- mandating appropriate behaviours;
- implementing monitoring and assurance mechanisms, such as 'Speak Up', for reporting ethical concerns or breaches; and
- linking remuneration to HSSE performance.

BG Group monitors its performance, not just in absolute terms, but also against stakeholder expectations, which is an important aspect of managing sustainability.

Governance
The Board of BG Group has a dedicated Sustainability Committee. The Committee, chaired by Sir David Manning, assists management in the formulation and implementation of policies, principles and practices, and in setting sustainability strategy. Further information regarding the work undertaken by the Committee during the year can be found in the **Corporate governance report** on page 56.

Sustainability reporting and materiality
Good practice in sustainability reporting includes identifying and reporting on material* sustainability issues, which are identified through an internal and external research process. These are environmental, social or governance issues, arising in the reporting year in question, that could have a significant impact on the business in the short or the longer term.

In 2012, BG Group strengthened this process by conducting more extensive internal and external stakeholder research.

*The Global Reporting Initiative (GRI), which sets a framework for sustainability reporting, describes material issues as topics that have a direct or indirect impact on an organisation's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large.

BG GROUP BUSINESS PRINCIPLES

CONDUCT

- We act with integrity, fairness and transparency.
- We comply with legal, regulatory and licence requirements.
- We do not tolerate corruption in any form, whether direct or indirect.
- Our investment criteria take account of economic returns, environmental impacts, social consequences and human rights.
- High standards of corporate governance are integral to the way we manage our business.

OUR PEOPLE

- We treat people with fairness, respect and decency.
- We help employees develop their potential.
- We believe that all injuries are preventable.
- We provide healthy, safe and secure work environments.

SOCIETY

- We work to ensure that neighbouring communities benefit from our presence on an enduring basis.
- We listen to neighbouring communities and take account of their interests.
- We support human rights within our areas of influence.

ENVIRONMENT

- We make a positive contribution to the protection of the environment.
- We go beyond compliance with local environmental regulation to meet internationally accepted best practice.
- We reduce to the minimum practicable any adverse effects of our operations on the environment.

The Queensland Gas Company Limited Sustainable Communities Fund's successful project partner, Toolooa State High School – Yarning Circle Project

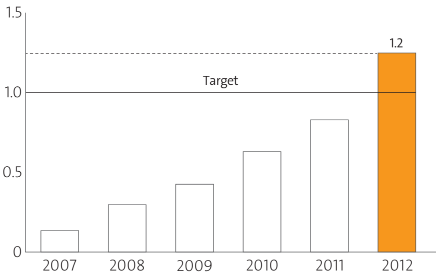
MATERIAL SUSTAINABILITY ISSUES

BG Group's internal and external research process in 2012 showed that material sustainability issues for the Group are:

- climate change;
- energy efficiency;
- environmental impact management;
- ethical conduct;
- health and wellbeing;
- human rights;
- new country entry and political risk management;
- safety;
- security;
- socio-economic reporting;
- succession and human resources;
- unconventional gas;
- water; and
- working with communities.

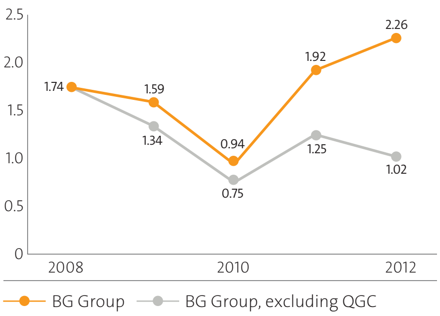
A number of these material issues are detailed on this page and opposite. For more information, (including details of the other material issues not covered in this Report), refer to the Sustainability Report.

Delivery of BG Group greenhouse gas reduction target[a] (one million tonnes)



(a) Annualised.

Total recordable case frequency[a]
(per million work hours)



(a) Includes employees and contractors working on operated assets.

Safety

BG Group puts safety first and believes that safety must never be compromised in pursuit of operational objectives. BG Group's goal is zero injuries across all operations and the Group is committed to the continuous identification of solutions to reduce safety related risk. BG Group believes that establishing a safe environment begins with fostering a culture that supports and encourages safe behaviour. Leading from the top is essential if the Group is to achieve its safety goal.

In 2012, sadly, two people died working for BG Group (See **Chief Executive's statement**). Thorough investigations were conducted and the findings and recommendations were shared with the Group. The Group deeply regrets this loss of life and every effort is being made to ensure that lessons learnt are communicated effectively to the relevant areas of the Group.

BG Group's occupational safety performance in 2012, as measured by TRCF, was disappointing at 2.26 against the Group's target of 1.35. Underlying this result, in particular, was safety performance in QGC where BG Group and contractor partners faced challenges relating to the large contractor workforce. Safety (TRCF) performance in QGC did improve in 2012, reducing from 8.06 in 2011 to 6.39 (a reduction of 21%) and the severity of injuries arising was reduced. However, it still fell short of the internal target of 5.0.

In response to this, QGC, working with its contractor partners, has developed a number of initiatives targeted at improving personal safety behaviour. These focus on strengthening and unifying existing safety management systems and reinforcing the safety culture, as well as addressing safety behaviour and supervision, particularly at the worksite. Excluding operations in QGC, the Group achieved a TRCF rate of 1.02 which met the Group's TRCF target.

Working safely with contractors continues to be a priority for BG Group. The One Team concept was introduced by BG Group's Chief Operating Officer in January 2012 to build on the existing safety priority of contractor safety management. In particular, One Team aims to instil in everyone who works for BG Group that they think of themselves and contractor partners as a single team, with a single purpose – to deliver the business plan safely. One Team asks people to care about the safety of all others on the team and emphasises the importance of communicating equally with the whole team, whether employees or contractors. BG Group also set up a One Team website that can be accessed by anyone.

The Gold Hard Hat Award scheme, a BG Group recognition programme, was launched in March 2012 to recognise individuals who made outstanding contributions to safety. BG Group also ran a Global Safety Week in July 2012 to follow up on commitments made during our first Global Safety Week in December 2011. Global Safety Week aims to encourage ownership of personal safety behaviour, and asks employees and teams to discuss safety and make personal safety commitments.

In addition to the industry personal safety metric – TRCF – BG Group also uses a metric to measure asset integrity, and so help manage the risk of major accident hazards. The key indicator BG Group uses for measuring asset integrity performance is 'loss of primary containment' – a metric that records any unintended release of hydrocarbons. These incidents are classified by severity, with Tier 1 being losses of over 500 kg for non-transmission and distribution and over 1 500 kg for transmission and distribution (T&D). In 2012, BG Group recorded 18 Tier 1 incidents, 11 fewer than 2011, of which 16 were in the now discontinued T&D segment.

Asset integrity and HSSE performance are tracked and reported to the GEC and Sustainability Committee on a quarterly basis. BG Group also ran a high-profile campaign to raise awareness of major accident hazards across the Group. During 2012, more than 350 people, including certain Non-Executive Directors and members of the Sustainability Committee, participated in major accident hazard training courses at a dedicated site in Cumbria. Training involved presentations, demonstrations of various scenarios and the dramatisation of a major accident. BG Group continued to implement the findings from an internal study initiated after the BP Macondo/Deepwater Horizon incident, and to engage in industry initiatives in protecting, preventing and responding to major accident hazards and major loss of containment incidents.

Unconventional gas

BG Group explores for and produces unconventional gas in two regions: coal seam gas in Australia; and shale gas in the USA. BG Group recognises the importance of constantly monitoring and improving working approaches in this emerging field.

In February 2011, BG Group published its approach to developing and producing unconventional gas, with eight key principles for responsible working. These principles, which reflect research and stakeholder consultation, are: working in the community; well design and engineering; testing and monitoring; chemicals disclosure; responsible chemical use; managing water responsibly; minimising emissions; and communicating and working with stakeholders.

During 2012, BG Group made progress against these principles, including with regard to:

- responsible chemicals use in the USA, where the Group started market and field research into environmentally preferable solutions for hydraulic fracturing;

- water management in Queensland and the USA. In Queensland, BG Group progressed work on four state-of-the-art reverse osmosis plants which will treat up to 97% of produced water, and in the USA, the Group invested $320 000 to field trial water treatment technologies, due to be completed by the end of the year; and
- emissions management in the USA, where BG Group introduced green completion technology for all wells and started work with partners on a major University of Texas study to provide reliable estimates of leakage rates during unconventional gas production. The Group also set up an internal energy efficiency and emissions study to look at fugitive emissions from pipelines.

Climate change
BG Group recognises the link between human activity and climate change and acknowledges its responsibility as an energy producer to manage its own impact on the environment. BG Group is committed to improving its energy efficiency and emissions performance and the Group remains one of the few large companies in the oil and gas sector to set a voluntary, internal target for reducing GHG emissions.

In 2012, despite rising production and rising total emissions, BG Group achieved the target set in 2007 to prevent one million tonnes of GHG emissions. More than 50 projects in nine countries were completed, which together reduced GHG emissions by more than 1.2 mtpa (see chart opposite).

BG Group also took action in 2012 to set a new emissions reduction target for 2013-17 which aims to reduce the overall intensity of BG Group's GHG emissions by 10% over the five-year period. While BG Group's overall production profile is rising, reducing emissions intensity is a focus for BG Group's operations across the world, and the Group continues to put incentives and processes in place to drive improved performance and deliver valuable energy efficiency projects. During 2012, the Group also prepared for the implementation of new GHG emissions regulations, trading schemes and carbon pricing mechanisms, and developed a Public Position on Climate Change, which sets out the core principles that guide BG Group's response to the challenge of climate change.

During 2012, BG Group continued selectively to research and review new technology investments – one way in which the Group's long-term environmental performance, and business performance, can be improved. The Group also continued to develop the Carbon Management Technology Hub, a virtual organisation working together with leading external organisations on the development of low-carbon solutions.

In 2012, emissions from BG Group's operated businesses were 7.7 million tonnes (mt) of carbon dioxide equivalent (CO_2e), an increase of 3% on 2011 levels. CO_2e emissions on an equity share basis, including operations where BG Group is an investor but not an operator, were 10% lower year-on-year, at 9.6 mt CO_2e.

Water
BG Group uses and produces water in a number of ways across its operations, from drilling to pipeline construction. Many of BG Group's activities result in discharges of water or effluent to the environment, which can present risks to water quality if not properly managed.

In 2012, BG Group's new water strategy was approved. This strategy states that all BG Group's operations with potential water management impacts must carry out risk assessments that consider factors such as water scarcity, water quality, disposal options, volumes of water required, potential impacts on other water users, or the potential impacts on operations as a result of local water availability and quality.

This strategy was also designed to ensure that BG Group's operations develop water management plans appropriate to local circumstances and risks. In Queensland, BG Group progressed its investment in new reverse osmosis plants that will provide a new source of water to industry and agriculture; while in the USA, field trials of new water solutions were initiated.

Succession and human resources
Attracting and retaining the right people is fundamental to running a sustainable business. BG Group takes a long-term approach, investing in individuals while looking ahead to the future needs of the Group.

A particular focus was the development of a framework for succession planning. This framework provides a clear process with key steps, clearly defined roles and responsibilities, guidelines for those involved in assessing competencies, and a timeline for implementation.

This framework aims to identify potential successors to Group Executive-level positions and to increase the pool of talented individuals who could fill those roles. Creating the framework has also helped develop understanding of where BG Group has gaps in its internal coverage and where it needs to look outside of the Group for candidates. In 2012, succession plans for the Group's most senior 75 positions and critical technical roles were put in place.

BG Group, recognising the need to increase female representation at the senior leadership level, has developed the following diversity statement:

- We believe that we will deliver better and more sustainable results if we have a culture where different perspectives are encouraged and considered. To achieve this, we aim to build a workforce that is diverse – in ethnicity, gender, background and approach.
- We aspire to increase the proportion of women in leadership positions to 20% by 2020.

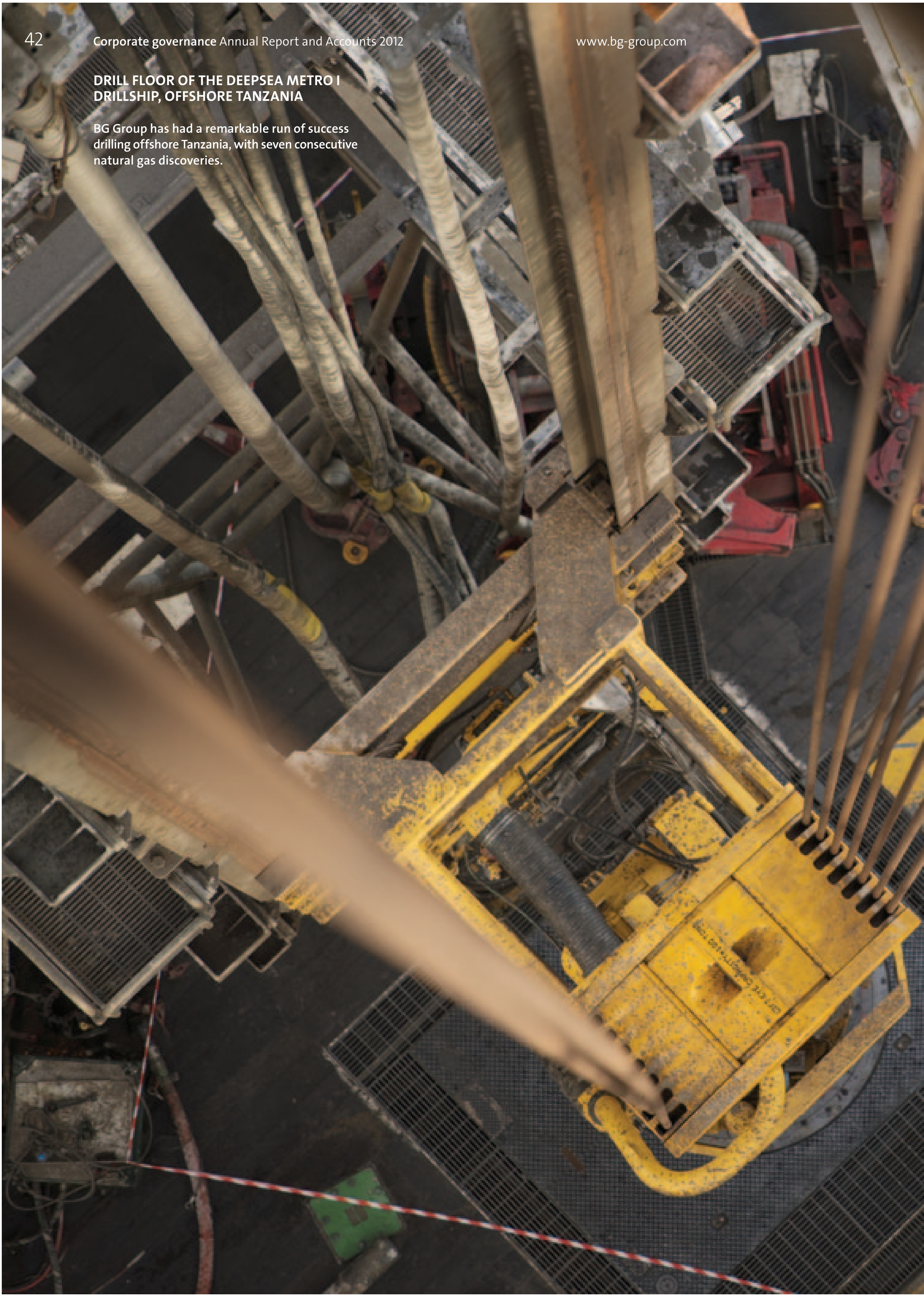
BG Group also plans to implement a series of specific actions on gender diversity, including: involving more female employees in our graduate recruitment activities; ensuring female employees identified in the senior and emerging talent pools have an appropriate mentor; and reviewing the Group's flexible working policies.

As at 31 December 2012, BG Group employed a total of 5 713 people, drawn from more than 70 nationalities, the majority of whom work outside the UK. During the year, more than 700 employees were on assignments outside their home country. The employee turnover rate for 2012 was 13.8% (2011: 11%).

Working with communities
Recent events, from the Deepwater Horizon incident to the Arab Spring, have underlined the extent to which strong community views and feelings can have dramatic consequences for institutions and individual companies. Both in local communities and in wider society, BG Group will only be accepted if it meets environmental, social and governance expectations.

BG Group invested a total of $27 million in social projects across the world, focusing on investments related to: vocational education and training; livelihoods development; and education, especially science, technology, engineering and maths (STEM).

During 2012, BG Group made good progress in implementing and expanding its STEM programme in Brazil and in the UK. In Australia, the Group continued to run a range of community programmes, in partnership with local organisations, which very specifically address the needs of local communities affected by BG Group's operations.

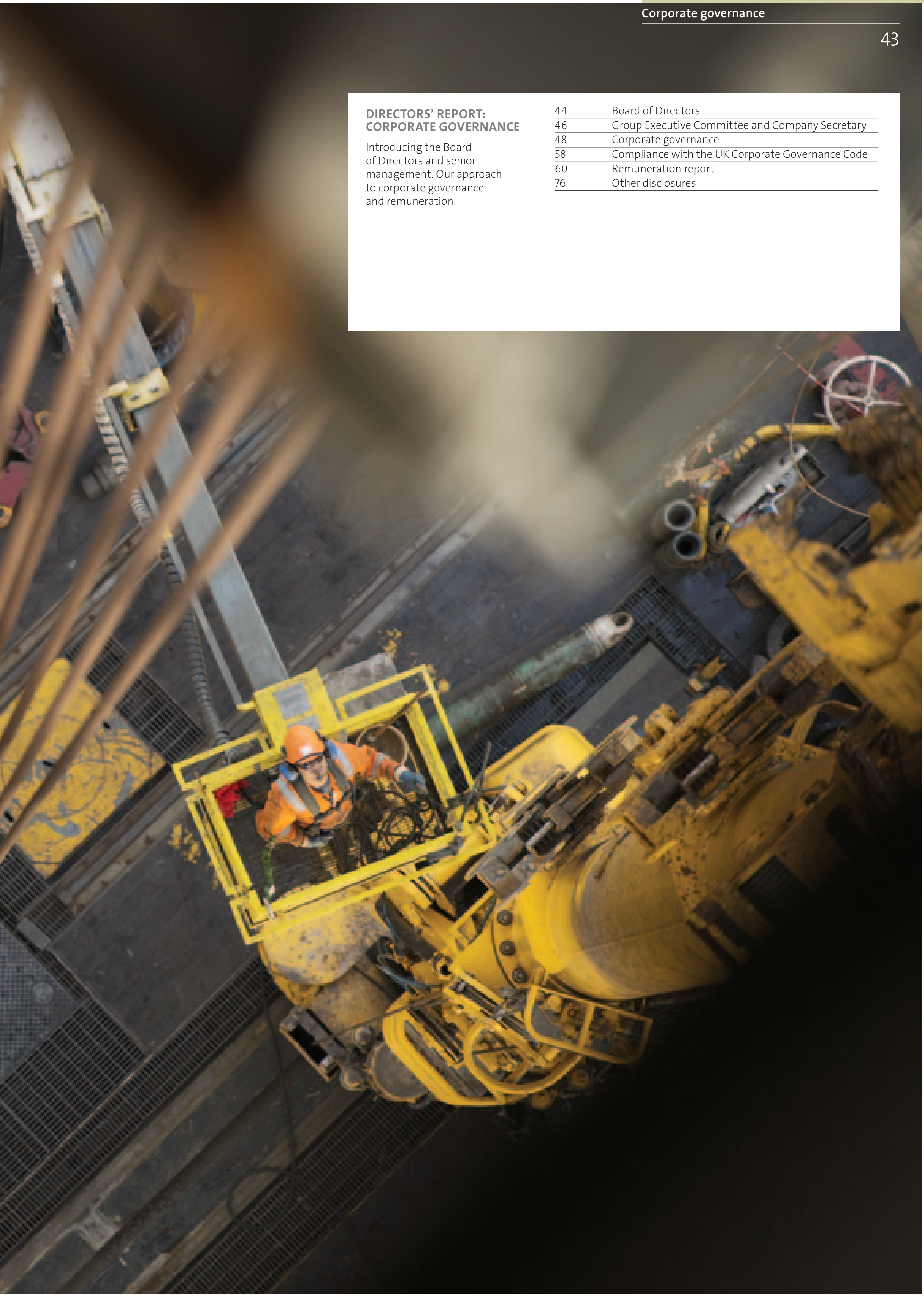


DRILL FLOOR OF THE DEEPSEA METRO I DRILLSHIP, OFFSHORE TANZANIA

BG Group has had a remarkable run of success drilling offshore Tanzania, with seven consecutive natural gas discoveries.

DIRECTORS' REPORT: CORPORATE GOVERNANCE

Introducing the Board of Directors and senior management. Our approach to corporate governance and remuneration.



BOARD OF DIRECTORS

Andrew Gould
Chairman

Appointed as a Non-Executive Director in 2011; Chairman from the 2012 Annual General Meeting (AGM).

Skills and experience: A chartered accountant, Andrew was chairman and chief executive officer of Schlumberger from 2003 to 2011, retiring as chief executive in 2011 and chairman in April 2012. Until May 2012, Andrew was senior independent director of Rio Tinto plc.

Other appointments:
- member of the Board of Trustees, the King Abdullah University of Science and Technology
- member of the International Advisory Board, the King Fahd University of Petroleum and Minerals
- member of the Development Advisory Board, the Royal Academy of Engineering

Committee membership:
- Chairman's*
- Finance*
- Nominations*
- Remuneration
- Sustainability

Chris Finlayson
Chief Executive

Appointed as an Executive Director in 2011; Chief Executive from 1 January 2013.

Skills and experience: Before joining BG Group, Chris gained over 33 years' technical and commercial experience in the oil and gas industry, with Royal Dutch Shell plc, where he was a member of the Exploration and Production leadership team, serving in Russia, Nigeria, Brunei and the North Sea.

Prior to his appointment as Chief Executive, Chris was responsible for BG Advance, including BG Group's exploration team, the Group's major capital projects programme, contracts and procurement, and technology.

Other appointments: None

Committee membership:
- Chairman's
- Finance
- Group Executive*

Den Jones
Interim Chief Financial Officer and Executive Director

Appointed on 15 February 2013.

Skills and experience: Prior to joining BG Group, Den spent more than a decade in specialist financial management and analyst positions, encompassing senior roles at PwC and Citibank/Salomon Smith Barney Investment Bank. He has been with BG Group since 2000 in a range of senior financial management positions and, from 2010, was Group Financial Controller, reporting directly to the Chief Financial Officer, with responsibility for the Group's finance function and operations. Den was Alternate Director for Fabio Barbosa from 9 September 2012 to 15 February 2013.

Responsibilities: He is responsible for Group finance, tax, treasury, investor relations, mergers and acquisitions, strategy and portfolio development, and internal audit.

Other appointments: None

Committee membership:
- Chairman's
- Finance
- Group Executive

Martin Houston
Chief Operating Officer and Executive Director

Appointed as an Executive Director in 2009; Chief Operating Officer from 2011.

Skills and experience: Martin joined British Gas in 1983 and became BG Group Executive Vice President in 2000. He 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 and a Companion of the Institution of Gas Engineers and Managers.

Responsibilities: He is responsible for the operational performance of the Group's assets, as well as Group-wide business development.

Other appointments: None

Committee membership:
- Group Executive
- Sustainability

Sir Robert Wilson KCMG
Sir Robert stepped down as Chairman and from the Board of Directors at the AGM in May 2012.

Sir Frank Chapman
Sir Frank stepped down as Chief Executive and from the Board of Directors on 31 December 2012.

Fabio Barbosa
Fabio stepped down as Chief Financial Officer and from the Board of Directors on 15 February 2013.

Philippe Varin
Philippe stepped down as a Non-Executive Director on 11 February 2013.

Baroness Hogg
Non-Executive Director

Appointed in 2005; elected Senior Independent Director in 2009.

Skills and experience: Sarah is a former head of the Prime Minister's Policy Unit, as second permanent secretary from 1990 to 1995, and has extensive experience of business, government and the media. Until 2010, she was chairman of 3i Group plc and has been a non-executive director of several other FTSE 100 companies.

Other appointments:
- chairman, the Financial Reporting Council
- chairman, Frontier Economics Limited
- member of The Takeover Panel
- senior adviser, the Financial Services Authority
- lead non-executive board member, HM Treasury
- non-executive director, John Lewis Partnership

Committee membership:
- Audit
- Nominations

*Committee Chairman.

Peter Backhouse
Non-Executive Director

Appointed in 2000.

Skills and experience: Peter is a former executive vice president of refining and marketing at BP plc. Prior to this, he was chief executive of BP Oil Europe and head of UK North Sea oil development. He gained considerable experience in international LNG and natural gas development, latterly as head of BP's UK gas business.

Other appointments:
- member of the advisory board, Carlyle/Riverstone Energy Partners
- chairman and non-executive director, Hestya Energy B.V.

Committee membership:
- Sustainability

Vivienne Cox
Non-Executive Director

Appointed in February 2012.

Skills and experience: Vivienne worked for BP plc from 1981 to 2009, serving in a variety of posts in the UK and continental Europe – ranging from supply and trading to commercial, finance and exploration and renewable energy, and was the former executive vice president of gas, power and renewables and former chief executive of BP Alternative Energy.

Other appointments:
- senior independent director, Pearson plc
- non-executive director, Rio Tinto plc
- member of the supervisory board, Vallourec SA
- patron of the St Francis Hospice Charity
- member of the Board, INSEAD
- member of the Development Advisory Board, the Royal Academy of Engineering
- lead independent director, the Ministerial Board of the Department for International Development (DFID)

Committee membership:
- Remuneration
- Sustainability

Dr John Hood
Non-Executive Director

Appointed in 2007.

Skills and experience: John was formerly vice chancellor of the University of Oxford, vice chancellor of the University of Auckland, and also a member of the Growth and Innovation Advisory Board and the Enterprise Council of the Prime Minister of New Zealand. He has also been a director of New Zealand-based companies, including Fonterra Co-operative Group Ltd and ASB Bank Limited, and was chairman of Tonkin & Taylor Ltd.

Other appointments:
- president and chief executive officer, Robertson Foundation
- chairman, Study Group Pty Ltd
- chairman, Rhodes Trustees
- chairman, URENCO

Committee membership:
- Audit
- Nominations
- Remuneration*
- Sustainability

Caio Koch-Weser
Non-Executive Director

Appointed in 2010.

Skills and experience: Caio was German deputy minister of finance from 1999 to 2005, responsible for international finance (G7 Deputy), European economic and financial affairs, as well as capital markets, banking and insurance. He was also chairman of the Supervisory Board of the German Federal Financial Supervisory Authority (BaFin). From 1973 to 1999, Caio was with the World Bank where he worked on Latin America, China, the Middle East and Africa, and held a number of high-level positions.

Other appointments:
- vice chairman, Deutsche Bank Group
- senior adviser, Royal Institute of International Affairs (Chatham House)
- board member, Peterson Institute for International Economics
- supervisory board member, European Climate Foundation
- advisory board member, Centre for European Reform

Committee membership:
- Audit
- Sustainability

Lim Haw-Kuang
Non-Executive Director

Appointed in March 2013.

Skills and experience: Haw-Kuang is the former executive chairman of Shell companies in China. He joined Shell in Malaysia in 1978, holding roles in information technology, finance, natural gas, exploration and production and oil products. Prior to becoming executive chairman of Shell China in 2005, his assignments included Shell business development manager for the former Soviet Union and Sakhalin; chairman and managing director for Shell Malaysia; president, oil products for Shell Asia Pacific and Middle East; and Shell International vice president of corporate strategy and planning.

He studied information technology at Imperial College, University of London, and has an MBA in International Management. In 2011, Haw-Kuang was honoured by the Beijing Municipal Government with the Great Wall Friendship Award, recognising his contribution to the city.

Other appointments:
- independent non-executive director, Sime Darby Berhad
- chairman, Sime Darby Energy & Utilities

Committee membership:
- None

Sir David Manning GCMG CVO
Non-Executive Director

Appointed in 2008.

Skills and experience: David was a member of the Foreign and Commonwealth Office for 35 years, serving in Warsaw, New Delhi, Paris, Moscow, Tel Aviv and Brussels. He retired from the Diplomatic Service in 2008 after four years as British ambassador to the USA.

Other appointments:
- non-executive director, Lockheed Martin UK Holdings Ltd
- senior adviser, the Royal Institute of International Affairs (Chatham House)
- trustee, Turner Contemporary
- director, Gatehouse Advisory Partners
- nominated member, Council of Lloyds of London
- chairman, London School of Economics IDEAS Advisory Board

Committee membership:
- Nominations
- Sustainability*

Mark Seligman
Non-Executive Director

Appointed in 2009.

Skills and experience: A chartered accountant, Mark has held senior roles at Barclays de Zoete Wedd and SG Warburg & Co Ltd. He is a former chairman of UK Investment Banking at Credit Suisse and is a former member of the bank's Global Investment Banking Executive Board.

Other appointments:
- deputy chairman, G4S plc
- alternate member of The Takeover Panel
- member of the Regional Growth Fund advisory panel
- senior independent director, Kingfisher plc

Committee membership:
- Audit*

Patrick Thomas
Non-Executive Director

Appointed in 2010.

Skills and experience: Prior to joining the Bayer Group in 2006, Patrick spent seven years with the Huntsman Corporation, a US chemicals company, latterly in the role of corporate executive vice president of Huntsman Matlin Patterson. Patrick gained 20 years' experience with ICI Pharmaceuticals and Agrochemicals, where he held a number of positions including regional director for Europe, Africa and the Middle East, and was also global chief executive officer of ICI Polyurethanes between 1997 and 1999.

Other appointments:
- chief executive officer, Bayer MaterialScience AG
- chairman, Oxford University Business Economics Programme Board
- chairman, advisory board of the European Institute for Industrial Leadership
- president, PlasticsEurope

Committee membership:
- Audit
- Remuneration

GROUP EXECUTIVE COMMITTEE AND COMPANY SECRETARY

The Group Executive Committee (GEC), chaired by the Chief Executive, comprises the Executive Directors of BG Group, together with the executives shown on these pages. The GEC has primary authority for the day-to-day management of the Group's operations, within the agreed limits set by the Board. The GEC is responsible for monitoring strategic risk, operational management of the Group and health, safety, security and environment (HSSE) strategy. The GEC has also assumed the key performance management responsibilities of the Group, previously delegated to the Group Performance Committee, which was disbanded during the year.

Chris Finlayson
Chief Executive

Sub-committee membership:
- Exploration and Appraisal*
- Governance*
- Investment**

Den Jones
Interim Chief Financial Officer and Executive Director

Sub-committee membership:
- Investment
- Risk Management*

Martin Houston
Chief Operating Officer and Executive Director

Sub-committee membership:
- Investment

In addition to the GEC, the following sub-committees focus on particular aspects of the Group's business:

Exploration and Appraisal Committee
Chairman – Chris Finlayson, Chief Executive

The Committee formulates the Group's exploration and appraisal strategy and is responsible for planning and setting objectives and priorities to deliver that strategy. In addition, the Committee approves funding for exploration and appraisal.

Governance Committee
Chairman – Chris Finlayson, Chief Executive

The main purpose of the Committee is to oversee the effectiveness of BG Group's governance, business risk and assurance processes, to approve Group Standards, to oversee the implementation of all other parts of the Internal Control Framework, and to ensure that there is an effective process for the identification, management and escalation of risk.

Investment Committee
Chairman – Chris Finlayson, Chief Executive**

The Committee considers and, where appropriate, approves merger, acquisition and disposal transactions, and other investment decisions, with the exception of exploration and appraisal business development transactions.

Reserves Committee
Chairman – Chris Cox, Acting Executive Vice President, BG Advance

The Committee approves amendments to reserves policy, process and guidelines. It reports annually to the Audit Committee on the reserves process and reviews and challenges BG Group's proposed reserves and resources estimates.

Risk Management Committee
Chairman – Den Jones, Interim Chief Financial Officer

The Committee formulates management's approach to risk and risk management. This includes consideration of risk appetite and strategic risks and oversight of the risk management function and the Enterprise Risk Management Framework. The key responsibilities of the Energy Trading and Credit Risk Committee (ETCRC) have been subsumed into the Committee. The ETCRC was disbanded during the year.

Speak Up and Fraud Investigations Committee
Chairman – Graham Vinter, General Counsel

The purpose of the Committee is to monitor the effectiveness of the Speak Up Policy, to oversee material investigations into allegations of breaches of the Business Principles, Group Policies, and any laws or regulations, to provide advice to the business on remedial actions and to share lessons learnt across the business.

Sir Frank Chapman stepped down as Chief Executive and from the GEC on 31 December 2012.

Fabio Barbosa stepped down as Chief Financial Officer and from the GEC on 15 February 2013.

Ashley Almanza left BG Group on 18 December 2012 and stepped down from the GEC on 20 November 2012.

Catherine Tanna was appointed Chairman of BG Australia in April 2012 with accountability for key stakeholder relations in Australia. She no longer sits on the GEC.

* Committee Chairman.
** Interim Committee Chairman, since 1 January 2013.

Robert Booker
Executive Vice President, Human Resources

Skills and experience: Prior to joining BG Group in 2006, Robert worked as a senior human resources (HR) consultant for Ernst & Young and Mercer Human Resource Consulting in the UK and Canada. He is a chartered accountant, holds a Masters in Finance from London Business School and was elected as a William Pitt Fellow of Pembroke College, Cambridge, in October 2012. Robert is also honorary treasurer of the Chartered Institute of Personnel and Development. He was appointed to his current position in February 2009, having previously been General Manager, Performance and Reward.

Responsibilities: Robert is responsible for all matters relating to HR strategy and policy.

Sub-committee membership:
- Governance
- Risk Management
- Speak Up and Fraud Investigations

Malcolm Brown
Executive Vice President, Exploration

Skills and experience: Malcolm is a geologist and has worked in the oil and gas industry for 36 years. He joined British Gas in 1982 and has been responsible for worldwide exploration in BG Group for 12 of the last 16 years. He was appointed to the GEC on 1 January 2013, having previously been Senior Vice President, Exploration. He is a fellow of the Geological Society of London.

Responsibilities: Malcolm is responsible for exploration worldwide.

Sub-committee membership:
- Exploration and Appraisal
- Risk Management

Chris Cox
Acting Executive Vice President, BG Advance

Skills and experience: Prior to joining BG Group in 2006, Chris spent 22 years with Chevron Corporation and two years with Amerada Hess in a variety of technical, commercial and management roles in a number of international settings. He was appointed to his current position on 1 January 2013, having previously been Senior Vice President, Developments, Operations and Well Engineering in BG Advance.

Responsibilities: Chris is responsible for BG Advance, which incorporates developments, operations, capital projects, well engineering, HSSE, IT, contracts and procurement, and technology, providing the Group with technical and commercial assurance and services, including resourcing and development of staff capabilities.

Sub-committee membership:
- Exploration and Appraisal
- Reserves*

Sir John Grant KCMG
Executive Vice President, Policy and Corporate Affairs

Skills and experience: John joined BG Group in September 2009, having been president of BHP Billiton Europe since 2007. Before then, he was a member of the Diplomatic Service, holding posts in Stockholm, Moscow and Brussels, where he was the UK's permanent representative to the European Union from 2003 to 2007.

Responsibilities: John is responsible for government and public affairs, communications, social performance and Business Principles.

Sub-committee membership:
- Exploration and Appraisal
- Speak Up and Fraud Investigations

Sami Iskander
Executive Vice President and Managing Director, Africa, Central and South Asia

Skills and experience: Prior to joining BG Group in 2008, Sami spent his career with Schlumberger and fulfilled a number of key leadership roles with them, with assignments in Latin America, the USA, Africa, Europe and the Middle East. He was appointed to the GEC in July 2009, having previously been Senior Vice President, Operations and Developments in BG Advance.

Responsibilities: Sami is responsible for the Group's activities across Africa and Central and South Asia.

Sub-committee membership:
- Exploration and Appraisal

Matt Schatzman
Executive Vice President, Global Energy Marketing and Shipping

Skills and experience: Prior to joining BG Group in 2007, Matt worked at Dynegy where his last position was president and chief executive officer of Dynegy's energy marketing and power generation businesses. He was appointed to his current role on 1 January 2012, having previously been Senior Vice President Energy Marketing, BG Americas and Global LNG.

Responsibilities: Matt is responsible for energy marketing, trading and shipping activities across the Group.

Sub-committee membership:
- Risk Management

Graham Vinter
General Counsel

Skills and experience: Graham joined BG Group as General Counsel in November 2007. Prior to this, he spent 27 years with the international law firm, Allen & Overy LLP, where he was a partner for just under 20 years and was global head of projects from 1996 to 2007. Graham's experience includes advising on energy transactions in Europe, the Middle East, Asia and elsewhere.

Responsibilities: Graham is responsible for the legal affairs of the Group.

Sub-committee membership:
- Governance
- Investment
- Speak Up and Fraud Investigations*

Steve Allen
Company Secretary

Skills and experience: Steve is a qualified lawyer. Before joining BG Group in 2005, he worked as a corporate lawyer in private practice in London. Prior to becoming Company Secretary in May 2011, he held a number of roles within the Group's Legal Department and was Chief Counsel, Corporate from 2008. In that role, he led the team providing legal support for corporate functions.

Responsibilities: As Company Secretary, Steve is responsible for advising the Board, through the Chairman, on all governance matters. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are complied with.

Sub-committee membership:
- Governance
- Risk Management

CORPORATE GOVERNANCE

AN EFFECTIVE BOARD IS CREATED BY BRINGING TOGETHER THE RIGHT COMBINATION OF INDIVIDUALS AND BY PROMOTING THE RIGHT DYNAMIC AMONG THOSE INDIVIDUALS. IT IS THEN A QUESTION OF ENSURING DELIVERY OF THE RIGHT INFORMATION, AT THE RIGHT TIME, SUCH THAT THE RIGHT DEGREE OF CONSTRUCTIVE CHALLENGE CAN TAKE PLACE. THESE ARE, I BELIEVE, THE CRITICAL INGREDIENTS FOR GOOD DECISION MAKING.

ANDREW GOULD
CHAIRMAN

"The Board of Directors remains fully committed to the principles of best practice in corporate governance and we comply fully with the UK Corporate Governance Code."

STRUCTURE OF THE REPORT

This report on corporate governance is intended to give shareholders a clear and comprehensive picture of the Group's governance arrangements and how they operated during the year. Pages 49 to 50 set out details of the areas of BG Group's focus during the year, while descriptions of how the Group complied with each Principle and Provision of the UK Corporate Governance Code are set out on pages 58 to 59.

This year has been marked for the Board by the orderly succession planning processes that were put in place for both the Chairman and Chief Executive positions. I succeeded Sir Robert Wilson as Chairman in May 2012 and Chris Finlayson succeeded Sir Frank Chapman as Chief Executive on 1 January 2013.

During my first months as Chairman, I have greatly enjoyed my full and direct engagement with all parts of the organisation, from senior management to technical and functional experts.

The Board's focus, as we move forward under new leadership, is to build on BG Group's reputation as a leading and commercially agile gas and oil business, with competitive strengths in exploration and LNG, and an impressive reserves and resource position. The critical success factor for the Group in the short to medium term will be the delivery of our major growth projects in Australia and Brazil safely, on time and on budget, while optimising operational performance and output from the Group's existing producing base assets. At the same time, the Board has already begun to consider the next generation of projects that will help to secure BG Group's future growth.

In light of the continued global economic, financial and political uncertainty in 2012, the Board has continued to conduct regular and systematic assessments of the evolving risks facing the business in delivering its strategic objectives.

The Board of Directors remains fully committed to the principles of best practice in corporate governance and we comply fully with the UK Corporate Governance Code (the Governance Code).

Chief Executive's succession

In December, we announced that Chris Finlayson had been appointed as Chief Executive, to succeed Sir Frank Chapman, with effect from 1 January 2013. Further details on the appointment can be found in the **Chairman's statement** on page 6. The Board (other than the Executive Directors) was actively engaged in a rigorous and comprehensive process to appoint Sir Frank's successor. The Non-Executive Directors identified and assessed three internal candidates, and a number of external candidates. At the conclusion of this process, the Board was unanimous that Chris has the right skills for this critical phase of delivery for BG Group and for the next stage of the Group's evolution.

Sir Frank stepped down from the Board at the end of 2012 but will, as planned, continue to work as an adviser in support of the Chief Executive transition until his retirement in June 2013. I look forward to building a strong relationship with Chris as the Group sets its new strategic objectives which we look forward to sharing with shareholders on 14 May 2013.

In February 2013, we announced that Fabio Barbosa had stepped down as Chief Financial Officer and as an Executive Director. Den Jones, BG Group Financial Controller, has been appointed as an Executive Director and as Interim Chief Financial Officer, pending the conclusion of a succession process for the role of Chief Financial Officer which will comprise both an examination of internal candidates and an external search.

In terms of wider succession planning, our Nominations Committee will, in the coming year, review with management the talent pipeline for senior management roles as a means of assessing the quality of BG Group's future leadership potential.

Board diversity

The Board believes that diversity is the essential foundation for introducing different perspectives into Board debate and for better anticipating the risks and opportunities in building a long-term, sustainable business, and this philosophy forms the Board's policy on diversity.

The Board recognises that gender is an important aspect of the overall diversity to which chairmen should have regard in establishing the optimal balance and composition of the Board.

Further details on the Board's approach to gender diversity at a senior management level within the business are provided in the Nominations Committee report on page 57.

A well-managed and progressive process of non-executive succession at BG Group means that we have in recent years refreshed the Board with appointments that have secured deeper sector experience and wider geographic coverage. These are both key elements of an effective Board at BG Group, given the technical complexity and international reach of our global operations today. In our longer-serving Non-Executive Directors, we also have accumulated Company knowledge and understanding.

During the year, the Board (through the Nominations Committee) identified that the future addition of a Non-Executive Director with experience of operating in Asia would be beneficial, and the appointment of Lim Haw-Kuang in March 2013 adds both sector and geographic experience to the Board in this regard.

The current composition of the Board continues to provide, in my view, an appropriate balance of skills, experience and knowledge of BG Group's business.

External Board evaluation
In 2012, the effectiveness of the Board and its Committees was externally facilitated by Dr Tracy Long of Boardroom Review. Dr Long facilitated the previous external evaluation three years ago and also assisted the Senior Independent Director in the internal evaluation last year. This degree of continuity, combined with Dr Long's continued independence and objectivity, meant that the evaluation was both insightful and able to offer perspective on what has changed within the Board over time. Details of the performance evaluation process, together with some of the most significant recommendations, and the Board's process for reviewing progress against these recommendations, are set out on page 50.

Shareholder engagement
The Board values open, constructive and purposeful dialogue with shareholders, particularly in relation to strategy, remuneration and governance. In support of the aims of the UK Stewardship Code, I engaged with institutional investors in relation to the proposed plans for the succession of the Chief Executive and I had a full programme of investor meetings (in addition to those typically offered by the executive management team) following the revised 2012 and 2013 production volume guidance provided in BG Group's third quarter 2012 results.

Over 100 meetings were held with shareholders by senior management during the year and, to reflect our strong retail shareholder base, members of the management team and the Company Secretary also met with members of the UK Shareholders' Association.

The quality of engagement with shareholders on corporate governance matters continues to vary greatly and I would encourage investors to raise matters in a timely and constructive way in the spirit of the UK Stewardship Code.

The Board regularly monitors the views of shareholders and considers reports from investor relations advisers concerning institutional shareholder feedback.

In conclusion, I believe strongly that effective corporate governance is central to BG Group's ability to operate successfully in the global business environment and helps to underpin the sustainable success of the Group over the long term.

Andrew Gould
Chairman

REPORT

Board focus
During 2012, the Board met on 10 occasions. Among other matters, the Board focused on:

- the safety of employees and contractors across the Group's businesses, as well as monitoring process safety and asset integrity issues affecting the Group's assets. This included regular updates on the Elgin/Franklin well control incident;
- succession planning for the Chief Executive;
- project performance in Australia and Brazil and associated capital expenditure;
- BG Group's funding plan and capital structure, including regular updates on the portfolio rationalisation plan, in particular the proposed sale of interests in the Queensland Curtis LNG (QCLNG) project in Australia;
- the 2013 Budget (including reserves and resources and production volumes);
- other strategic items, such as exploration initiatives, LNG shipping and development options for the Group's interests in the Karachaganak field in Kazakhstan;
- the medical condition of Sir Frank Chapman, the former Chief Executive; and
- the tender process for external audit services.

Board Planning Conference
In June 2012, BG Group held a two-day Board Planning Conference to discuss the Group's growth plans and a number of strategic issues. Senior members of management presented to the Conference on risks and opportunities relevant to the development and delivery of the Group's strategy.

The Board considered the global economic and energy market outlook, industry and competitor trends, the growth opportunities and challenges in BG Group's strategic business plan (including exploration and other business development initiatives), future portfolio composition and rationalisation, and the Group's gas, oil and LNG marketing strategies. The Board also discussed the Group's evolving Enterprise Risk Management Framework (see page 52), its Licence to Operate strategy and the skills and organisational capabilities, including the International Graduate Development Programme, to support the Group's growth plans.

Board visit to Egypt
In September 2012, the Board of Directors visited BG Egypt. The visit provided an opportunity for the Board to meet the local management team in both formal and informal settings and to gain greater insight into BG Group's operations and plans in Egypt.

The Directors received presentations from local management, who provided an update on the evolving political, economic and market situation in Egypt, the West Delta Deep Marine (WDDM) development, non-WDDM exploration activities, the overall future strategy for the asset and on the receivables position. The four-day visit also allowed the Board to assess first hand the risks relating to the execution of BG Group's current activities and its future strategy. Members of the Board also travelled to the onshore gas processing plant at Idku and toured the site with senior management.

While in Egypt, meetings of the Board, Audit Committee and Sustainability Committee were held, with all Directors who travelled to Egypt being present. The meeting agendas principally comprised items relating specifically to Egypt, and all Committees focused on the impact on BG Group of the change in the political and economic landscape following the presidential elections. The Chairman and other senior Board members met with the new Egyptian President and Prime Minister and meetings were also held with several other ministers, including the Minister of Petroleum.

In 2013, given the importance of Australia to the Group's future growth plans, the Board intends to visit QGC to assess progress with the Group's QCLNG project in Queensland.

SETTING BG GROUP'S PRIORITIES

What the Board has achieved in 2012	Board priorities for 2013
• Smooth transition to Andrew Gould as Chairman. • Chris Finlayson appointed as Chief Executive with effect from 1 January 2013. • Greater balance sheet flexibility supporting the Group's major capital expenditure programme. • Continued pursuit of a successful divestment strategy and consolidation of core business areas. • An enhanced strategic planning process with an improved understanding of the Group's strategic risks through the establishment of the Enterprise Risk Management Framework and a Risk Management Committee at Group Executive level. • Greater visibility of the external landscape (global economic and energy market outlook). • Increased sectoral experience and gender diversity on the Board.	• The successful transition of Chris Finlayson in his first year as the new Chief Executive. • Appointment and successful integration of Chief Financial Officer. • A review of the Group's longer-term strategy. • Support for the continued delivery of BG Group's growth projects in Australia and Brazil. • Continued focus on developing an integrated dialogue on risk at Board level. • Continue to drive for improvements in safety and asset integrity performance. • Non-Executive Director succession planning, including for the role of Senior Independent Director. • Further interaction with, and feedback from, shareholders.

CORPORATE GOVERNANCE HIGHLIGHTS

2011 internal Board evaluation – in practice
The 2011 Board evaluation process was facilitated by the Senior Independent Director and Committee Chairmen (with support from Dr Tracy Long at Boardroom Review) and was reported on in the 2011 Annual Report.

A number of matters raised during this evaluation exercise formed part of the Board agenda in 2012. These included:

- action items from the Board Planning Conference being used to support the development of forward agendas for the Board and its Committees;
- senior executives and subject matter experts regularly attending meetings of the Board and its Committees and the Chairman and Non-Executive Directors meeting regularly outside of the schedule of formal meetings with senior management and relevant technical and functional experts;
- Board and Committee agendas being set with additional allocated time for external presenters. For example, an independent writer and consultant on international affairs attended part of the Board Planning Conference, and a key contractor attended the Sustainability Committee to discuss project and safety performance at the Group's QCLNG project; and
- the Chairman reporting regularly to the Board on the outcome of investor meetings during 2012, which focused on Chief Executive succession, and remuneration and operational performance issues. In addition, the monthly business and financial review distributed to the Board included an enhanced section on investor relations and feedback.

2012 Board evaluation process
In 2012, the evaluation of the effectiveness of the Board and its Committees was facilitated externally by Dr Tracy Long of Boardroom Review.

Dr Long's only connection with BG Group is her work with the Board on performance evaluation and she is considered independent with no actual or perceived conflict of interest. The evaluation comprised in-depth interviews with Directors and the Company Secretary, attendance at a Board meeting and review of Board and Committee papers.

The review covered three key aspects of Board effectiveness in detail: the work of the Board, Board culture and dynamics, and the Board's use of time, which were determined by the Chairman and Dr Long to be of most importance and value to the Board.

The results of the evaluation were discussed by the Board as a whole and by the relevant Committees. The evaluation concluded that the Board operates effectively as a unit and that the diverse composition of the Board, and thoughtful succession planning, had engendered a positive Board culture characterised by mutual trust and respect. The dynamic was recognised as collegiate, with an even and engaged contribution from all members. The strength of the Audit and Sustainability Committees was acknowledged and there was good use of the Board's time, with effective calendar and agenda planning and good quality information tabled for review.

A number of recommendations were raised in the evaluation and, following consultation with the Chairman and the Chief Executive, the Company Secretary presented in February 2013 a series of actions for the Board to consider to enhance its effectiveness. Those actions were agreed at that meeting and will form part of the agenda of the Board and its Committees in 2013. Certain of these matters are set out in the table below.

RECOMMENDATIONS FOR 2013

- Outcomes of the strategic and risk discussions at the Board Planning Conference to be included within each Board pack for ease of reference.
- Greater visibility and analysis of the competitive landscape.
- Tailored induction and development programmes for individual Directors.
- Teach-ins on crisis management preparedness to be included on the forward agenda.
- Resourcing plans to be included as a more regular component of papers recommending investment propositions.
- BG Group's organisational structure and corporate culture to form part of the wider review of the longer-term strategy to be formulated by the Chief Executive.

A review of the progress made against these objectives has been added to the 2013 forward agenda.

The Board has concluded that a tender process should be carried out for the next external Board evaluation in two years' time.

Development

Induction programmes for new Non-Executive Directors
An induction programme was undertaken in 2012 for Vivienne Cox, who joined the Board in February. The programme included specific in-depth detail on the Group's sustainability agenda; a visit to the LNG trading business in Houston; detailed information about BG Group's structure, activities and operations; and meetings with senior executives and key advisers.

Prior to Ms Cox's appointment to the Remuneration Committee, she met with the Executive Vice President, Human Resources. This meeting covered a broad range of remuneration issues, but centred on the Group's remuneration policy, performance-based incentives and pension arrangements.

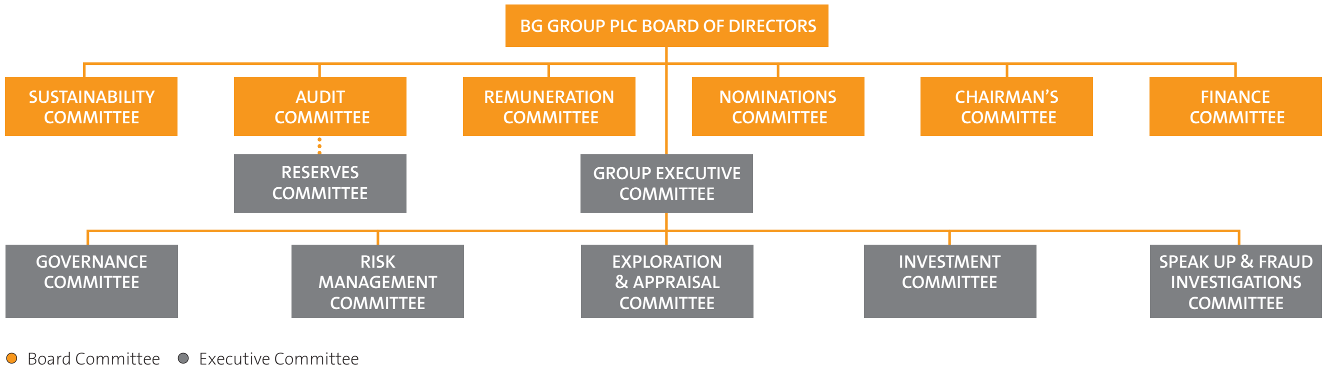
In response to feedback received as a part of the 2012 Board evaluation process, a formal training and development programme will be introduced for each Non-Executive Director during 2013 and the Chairman and Company Secretary will meet regularly with each Non-Executive Director to support their individual requirements. As noted above, these programmes will focus not only on the external environment but also provide Directors with sufficient access to BG Group's operations and people, to allow them to develop the necessary knowledge of BG Group's business such that the effectiveness of contributions made at Board and Committee meetings is maximised.

Teach-in programme
As part of the ongoing development of Directors, a formal teach-in programme was undertaken during the year to ensure the Board remained up to date with key business developments. Topics considered during the year included field development planning, armed security on Group-owned LNG vessels and changes in the corporate governance landscape.

VIVIENNE COX
NON-EXECUTIVE DIRECTOR

"It's great to come back to the oil and gas industry. I have had the chance to visit BG Group's operations in Egypt at a time of change in the country, and I was impressed by the commercial and technical competence of the team on the ground. Visiting the gas and LNG trading businesses in Houston and the UK also confirmed in my mind that the Group deserves its reputation for world-class optimisation and risk management. The Group's objective for safer and safer operations was reinforced by my visit to the Spadeadam facility – the sight and sound of a (controlled) explosion will stay with me forever!"

BOARD AND EXECUTIVE COMMITTEE STRUCTURE



BOARD AND COMMITTEE ATTENDANCE IN 2012

	Board	Audit	Sustainability	Nominations	Chairman's	Finance	Remuneration
Andrew Gould[a]	10/10	2/2	6/6	3/3	3/4	1/1	4/4
Sir Robert Wilson[b]	4/4	–	2/2	3/3	2/3	1/1	2/2
Chris Finlayson	10/10	–	–	–	–	–	–
Sir Frank Chapman	10/10	–	6/6	–	7/7	2/2	–
Fabio Barbosa[c]	6/10	–	–	–	5/7	2/2	–
Den Jones[d]	3/3	–	–	–	2/2	–	–
Martin Houston	10/10	–	6/6	–	–	–	–
Peter Backhouse	10/10	–	6/6	–	–	–	–
Vivienne Cox[e]	9/9	–	5/5	–	–	–	2/2
Baroness Hogg[f]	9/10	8/8	–	5/6	1/1	–	–
Dr John Hood	10/10	8/8	6/6	6/6	–	–	4/4
Caio Koch-Weser[g]	10/10	7/7	6/6	–	–	–	–
Sir David Manning[h]	9/10	–	5/6	6/6	–	–	–
Mark Seligman[i]	9/10	8/8	–	–	1/1	–	–
Patrick Thomas	10/10	8/8	–	–	–	–	4/4
Philippe Varin[j]	6/10	5/8	–	–	–	–	2/4

(a) Andrew Gould stepped down as a member of the Audit Committee on 16 May 2012 on his appointment as Chairman of the Board. When Andrew Gould became Chairman of the Board, he replaced Sir Robert Wilson as Chairman of the Chairman's, Finance and Nominations Committees. Andrew Gould was unable to attend the Chairman's Committee meeting on 31 October 2012 because he was travelling on BG Group business to Beijing to meet with representatives of the China National Offshore Oil Corporation (CNOOC). The Chairman's Committee was chaired by Baroness Hogg, Senior Independent Director, as his delegate.

(b) Sir Robert Wilson retired from the Board on 16 May 2012.

(c) Fabio Barbosa was granted leave of absence on 9 September 2012 in order to undergo medical treatment in Brazil for a diagnosed condition. Den Jones, the Group Financial Controller, assumed all responsibilities of the Chief Financial Officer (excluding the chairmanship of the Investment Committee) following his appointment by Fabio Barbosa as his Alternate Director on 9 September 2012. Fabio Barbosa provided Den Jones with counsel and support throughout his leave of absence. On 15 February 2013, it was announced that Fabio Barbosa would be appointed as Chairman, BG South America and would step down as Chief Financial Officer and from the Board with immediate effect.

(d) Den Jones was appointed as Alternate Director to Fabio Barbosa on 9 September 2012 and then was appointed as Interim Chief Financial Officer and Executive Director on 15 February 2013.

(e) Vivienne Cox joined the Board on 8 February 2012 and joined the Remuneration and Sustainability Committees on 10 April 2012.

(f) Baroness Hogg was unable to attend the Board meeting held in February 2012 due to prior commitments as chairman of the Financial Reporting Council. Baroness Hogg was unable to attend the Nominations Committee meeting in March because of a prior commitment at the House of Lords.

(g) Caio Koch-Weser joined the Audit Committee on 10 April 2012.

(h) Sir David Manning has chaired the Sustainability Committee since 5 September 2011. Sir David missed the September Board meeting and Sustainability Committee meeting due to a prior commitment. The Sustainability Committee was chaired by Dr John Hood in his absence.

(i) While able to chair the Audit Committee meeting in December, Mark Seligman was unable to attend the Board meeting in December due to coinciding board and audit committee meetings at G4S plc where he is the non-executive deputy chairman. Baroness Hogg reported to the Board on the outcomes of the December Audit Committee meeting with Mark Seligman's prior approval.

(j) Philippe Varin was unable to attend four Board meetings, three Audit Committee meetings and two Remuneration Committee meetings due to coinciding commitments at PSA Peugeot Citroën where he is chairman of the managing board. Philippe Varin stepped down from the Board on 11 February 2013.

INTERNAL CONTROL

BG Group has a well-established Governance Framework which comprises three elements: organisation and structure; internal control, including risk management; and independent assurance.

Organisation and structure

BG Group's organisation and structure are established and overseen by the Board and are designed to allow for effective and efficient decision making and to meet corporate governance good practice. A diagram illustrating the BG Group Board Committee structure and Group Executive sub-committee structure is set out on page 51. The Board has delegated authority to its Committees on specific matters which are set out in written terms of reference for each. These terms of reference were refreshed in 2012 in line with evolving best practice and high standards of corporate governance, and will now be reviewed annually. The membership of each of the Board Committees is detailed on pages 44 to 47. The terms of reference of the Board Committees are published on BG Group's website and are also available from the Company Secretary upon request.

The Board is ultimately responsible for BG Group's risk management and internal control systems and oversees the review, compliance and assurance processes that have been designed to ensure there is an effective internal control environment. The Board's monitoring role is undertaken in accordance with the guidance set out in the Governance Code, the Internal Control: Guidance to Directors (formerly the Turnbull Guidance), and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. BG Group's internal controls provide reasonable, rather than absolute, assurance against material loss or misstatement and are designed to manage, rather than eliminate, the risk of fraud or failure to achieve business objectives.

Where BG Group participates in joint ventures, the Group has varying degrees of influence and control. BG Group's ability to assess and influence the internal control environment within certain of its joint ventures is limited, as disclosed in the **Principal risks and uncertainties** section on page 32 and the Audit Committee's Review of Effectiveness of Internal Controls. The Group strives to take a targeted and risk-based approach to influencing joint ventures, encouraging them (where appropriate) to adopt business and other standards that are at least equivalent to BG Group standards.

Internal control and risk management

BG Group's Internal Control Framework (ICF) defines the way in which the Group operates. It comprises the Group's Business Principles and mandatory Policies and Standards. Within these, a series of core controls has been identified that contribute to the identification and mitigation of one or more Group risks.

Governance

Maintaining the integrity of Policies and Standards is part of an established review and approval process and the Governance Committee has accountability for the oversight of that process. The Governance Committee maintains executive oversight of the ICF, including its structure and operation, and ensures that there is a robust process for evaluating the effectiveness of the Group's internal controls. The Governance Committee also effected changes to its own composition during the year to facilitate more insightful analysis and information flow from the Regional Governance Committees and greater traction within assets and regions of issues and actions arising.

In 2012, the Governance Committee sponsored a project to improve the integration of the various forms of assurance provided at the Group level with the principal risks that the business faces. The Integrated Assurance Framework is a more holistic approach to the oversight of risk, mitigating controls and combined assurance activities. It is expected that the Integrated Assurance Framework project will continue in 2013 and should result in the refinement of BG Group's ability to align audits and assurance activities to principal risks and core controls. For more information about the proposed Integrated Assurance Framework, please see the inset diagram on page 53.

Risk management

Following the appointment of a Chief Risk Officer in late 2011, the Risk Management Committee (RMC) was established as a sub-Committee of the GEC in 2012 and is a further evolution of previous committees that reviewed risk. The RMC was formed to review and formulate management's recommendations to the Board on the Group's evolving risk profile and risk management processes and, in particular, to assess the Group's strategic risks. During the year, the Group has enhanced its Enterprise Risk Management Framework, specifically through a thorough overhaul of the existing Business Risk Management Process, and the development and deployment of Cash Flow at Risk and Earnings at Risk models. For more information on the development of BG Group's Enterprise Risk Management Framework, please see the **Principal risks and uncertainties** section on page 32.

Controls over financial reporting

A framework of disclosure controls and procedures is in place to support the approval of the Group's annual consolidated accounts. A Project Board, comprising of senior executives with legal and financial technical experience, has overall responsibility for the production of the Annual Report and Accounts. The Project Board is responsible for reviewing the Group's annual financial reporting and disclosures and accompanying assurance documentation to ensure that the Annual Report and Accounts have been subject to adequate verification and comply with applicable legal and technical requirements. The Board reviews and approves the Annual Report and Accounts for publication and ensures that appropriate disclosures have been made. This governance process is in place to ensure both management and the Board are given sufficient opportunity to review and challenge the Group's Annual Report and Accounts before it is made publicly available.

Management's report on internal control over financial reporting

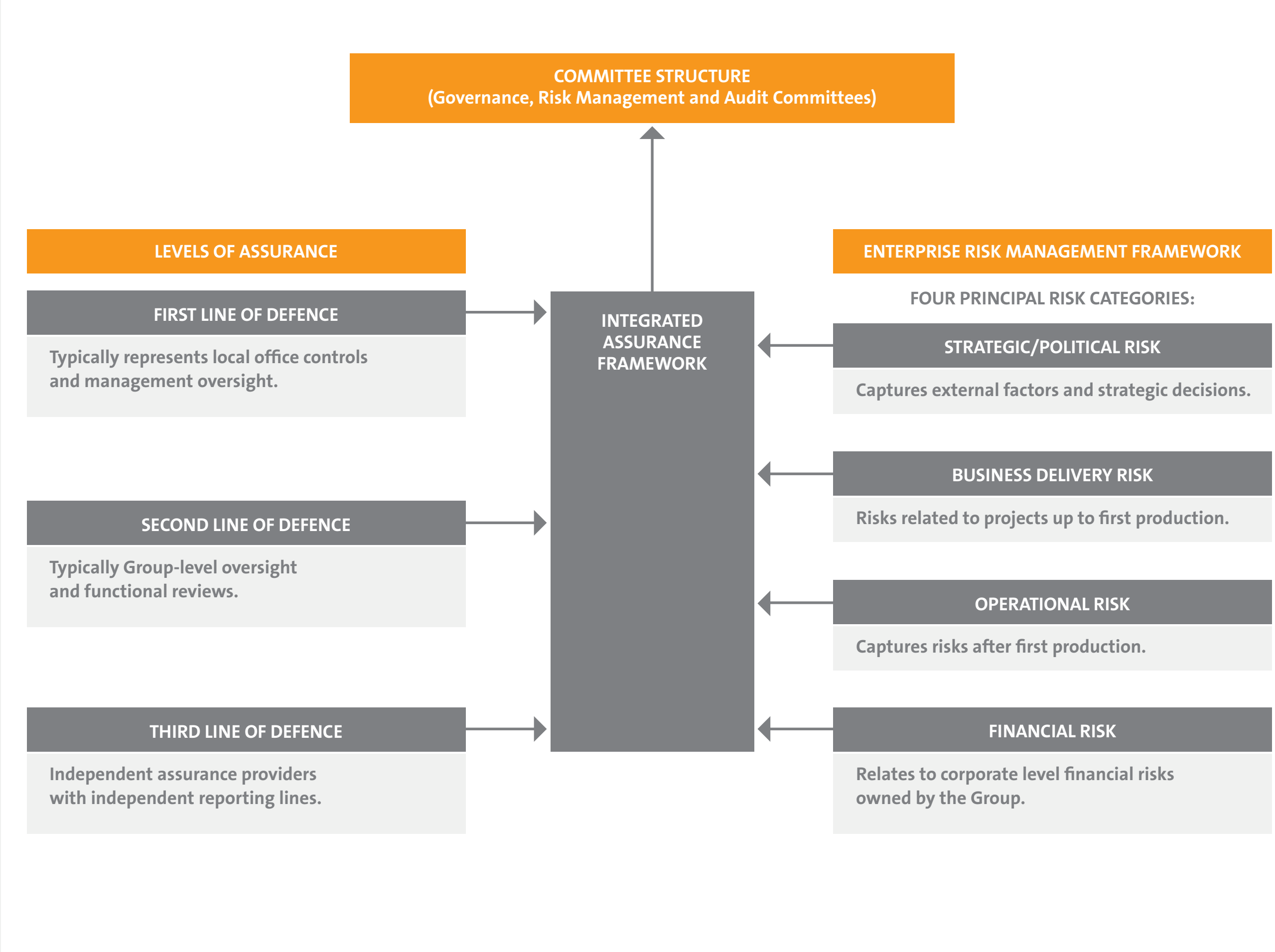
Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by the Group Finance function to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of Financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorisations of management and the respective Directors; and provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the Financial statements.

System of internal control

The Board has established processes designed to allow it to assess the effectiveness of the overall internal control environment within BG Group. Each year, every member of the GEC and the Company Secretary provides Letters of Assurance (LoA) to the Chief Executive in relation to the control environment in their areas of responsibility. These LoAs are supported by the results of the Governance Self-Assessment (GSA) process, which requires management-level reporting to the GEC and Company Secretary to assess the effectiveness of the core controls within their areas of responsibilities and to report any significant deficiencies or material weaknesses.

The Governance Committee reviews the LoAs and the results of the GSA process, as well as discrete reports from Group Audit, the Ethical Conduct Compliance Unit and other assurance providers across BG Group. Following its assessment of the overall effectiveness of the internal control environment, the Governance Committee reports the results of its review to the GEC and to the Audit Committee. The Board's internal control statement can be found on page 79.

INTEGRATED ASSURANCE FRAMEWORK



Internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Independent assurance
A key element of BG Group's Governance Framework is independent assurance, which is provided primarily by independent external auditors, other external assurance providers and Group Audit. Group Audit provides assurance to the Board, Audit Committee, GEC and management that effective internal control processes are in place to identify and manage business risk across the Group.

In particular, Group Audit:

- provides an independent assessment of BG Group's system of risk management and internal control;
- assists management by carrying out independent appraisals of the effectiveness of the internal control environment and making recommendations for improvement; and
- supports development of the Group's governance and business risk management policies.

The independent external auditors' report to shareholders and their audit opinion on the applicable section of the Financial statements are set out on page 82.

The Group makes use of external reserves consultant DeGolyer & MacNaughton, which provides independent assurance of BG Group's estimates of its gas and oil reserves and resources through a rolling programme of reviews which covers a proportion of the reserves portfolio each year. In 2012, Miller and Lents completed a review of the resources profile in Brazil.

AUDIT COMMITTEE

MARK SELIGMAN
CHAIRMAN OF THE AUDIT COMMITTEE

COMMITTEE MEMBERS*

- Mark Seligman (Committee Chairman)
- Baroness Hogg
- Dr John Hood
- Caio Koch-Weser
- Patrick Thomas

For full biographies, see page **44** to **45**

During 2012, the global political and economic environment continued to prove challenging. In addition, BG Group faced a number of particular challenges, notably the required increase in the underlying investment in QCLNG to $20.4 billion, a $1.3 billion non-cash post-tax impairment on US shale gas assets and production issues in Egypt and the UK.

The Committee's work and our audit, internal control and risk management systems continue to evolve to maintain the integrity of our financial and internal controls and the effective identification and management of risk. This evolution will continue to be a key focus for the Committee during 2013. Further details of BG Group's **Principal risks and uncertainties** are set out in the **Business review**.

The Committee has spent considerable time focusing on BG Group's funding plans and liquidity given the Group's substantial capital expenditure programme. During the year, the Group successfully raised some $2.1 billion equivalent raised by way of hybrid bond issues, and $2.9 billion through disposals to fund its growth plans.

In October, the Group announced that, following a competitive tender process, it was proposing to appoint Ernst & Young LLP (E&Y) as auditor of the Group. Further details of the tender process are set out on page 55. On behalf of the Board, I would like to thank PricewaterhouseCoopers LLP for the high quality of audit services they have provided to the Group and I look forward to working closely with E&Y going forward.

Mark Seligman
Chairman of the Audit Committee

Role of the Committee

The Committee supports the Board in fulfilling its responsibilities in respect of: overseeing BG Group's financial reporting processes; the way in which management ensures and monitors the adequacy of financial and compliance controls and business risk management processes; the appointment, remuneration, independence and performance of the Group's external auditors; and the independence and performance of Group Audit.

Details of the work carried out by the Committee in accordance with its terms of reference and in addressing significant issues are reported to the Board as a matter of course by the Chairman of the Committee and are described in this report. The terms of reference for the Committee can be found at **www.bg-group.com/auditcommittee**

Committee membership

In April, Caio Koch-Weser was appointed as a member of the Committee and, in May, Andrew Gould retired as a member of the Committee upon his appointment as Chairman.

Mark Seligman, as a chartered accountant, has been determined by the Board as the member of the Committee having 'recent and relevant financial experience', as required by the Governance Code. All members of the Committee are deemed to be independent and the Committee has concluded that its membership meets the requirements of the Governance Code.

Meetings are normally attended by the Chairman, the (Interim) Chief Financial Officer, the Group Financial Controller, the Head of Group Audit and representatives of the external auditors.

The Audit Committee's performance was assessed as part of the Board's Annual Effectiveness Review. It was concluded that the Committee operated effectively.

Key activities

Integrity of Financial statements and disclosures

The Audit Committee assisted the Board in ensuring the integrity of the Financial statements and related disclosures. It reviewed the quarterly financial results announcements, reported the outcome of its reviews and made recommendations to the Board based on these reviews. The Committee also reviewed the processes to assure the integrity of the Annual Report and Accounts, in particular:

- the reserves and resources booking process;
- the work undertaken to support the going concern statement;
- the management representation letter to the external auditors;
- that the information presented in the report, when taken as a whole, is fair, balanced and understandable and contains the information necessary for shareholders to assess the Company's performance, business model and strategy;
- the effectiveness of the disclosure controls and procedures designed to ensure the Annual Report and Accounts comply with all relevant legal and regulatory requirements; and
- the process designed to ensure the external auditors are aware of all 'relevant audit information', as required by Sections 418 and 419 of the Companies Act 2006.

Risk management and internal controls

Following the appointment of a Chief Risk Officer and a new Head of Group Audit in late 2011, the Committee continued to provide oversight during the year to BG Group's risk management and internal control systems. The Committee reviewed the effectiveness of the Group's risk management and internal control systems and also reviewed reports from management relating to internal control and assurance, fraud risk management, and Speak Up/whistleblowing. Based on its review, the Committee has reported to the Board that it is satisfied that the risk management and internal control systems in place for the period 1 January 2012 to the date of this report are effective. It should be noted that the Group's assessment of the risk management and internal control systems

*Andrew Gould and Philippe Varin stepped down from the Audit Committee on 16 May 2012 and 11 February 2013 respectively.
Caio Koch-Weser joined the Audit Committee on 10 April 2012.

in joint ventures over which BG Group does not exercise control is limited by the degree of influence and access to information and resources that the Group has within that joint venture.

Particular areas of focus during the year
During the year, the Committee focused on a number of other significant areas:

- reviewing in depth the processes and outcomes supporting management's production and reserves forecasts and business planning;
- reviewing the process for the agreement of a $1.3 billion non-cash post-tax impairment on US shale gas assets;
- reviewing the processes to conclude that no impairment was required, both on the West Delta Deep Marine field in Egypt following a reserves downgrade and an increase in receivables, and in Australia following revisions to the Group's expected investment in QCLNG announced in the second quarter;
- accounting and reporting judgements on receivables, impairments, going concern in relation to the Financial statements on a quarterly basis, and significant accounting policies and estimates of the Group under IFRSs on an annual basis;
- the Group's Cash Flow at Risk model in the context of the review of going concern;
- reports from management in relation to funding, liquidity and going concern, and the testing of these against the Group's business cycle;
- the change programme introduced by the new Head of Group Audit following the independent review of Group Audit undertaken in 2011;
- reports from management and the external auditor in relation to business continuity planning, and information and cyber security and data management;
- reviewing the programme that has been put in place to ensure that the Group complies with the UK Bribery Act 2010;
- periodic business updates from senior finance managers; and
- changes to Group segmental reporting.

Group Audit
The Committee is responsible for monitoring and reviewing the operation and effectiveness of Group Audit, including its strategic focus, activities, plans and resources. The appointment and removal of the Head of Group Audit is a matter for the Audit Committee.

The Committee approved Group Audit's plan for 2012 which was primarily risk-based and reviewed staffing levels and qualifications to ensure these were appropriate and adequate for the delivery of the plan.

During the year, the Committee received regular reports from the Head of Group Audit summarising the findings from Group Audit's work and the responses from, and action plans established by, management. The Committee monitored the progress of the most significant action plans to ensure these were completed satisfactorily.

External auditors
The Audit Committee manages the relationship with the Group's external auditors, on behalf of the Board. As detailed in the 2011 Annual Report, the Committee recognised that PricewaterhouseCoopers LLP (PwC) had been the Group's external auditors since incorporation and, to support best practice in corporate governance, and in recognition of feedback from institutional investors, undertook during the year a full tender process for external audit services. Further detail of the tender process undertaken and resulting recommendation to appoint Ernst & Young LLP (E&Y) as auditors to the Group is set out in the box below.

During the year, the Committee carried out its annual assessment of the auditors and reported to the Board on its findings. To support this assessment, Committee members and relevant members of management were invited to complete a questionnaire on their views about the auditors' performance during the year. The feedback received was reviewed by management and reported to the Committee. In addition, the Committee reviewed the Audit Inspection Unit's public report on the 2011/12 inspection of both PwC and E&Y.

After taking these reports into consideration, together with the auditors' report on their approach to audit quality and transparency, the Committee concluded that the auditors demonstrated appropriate qualifications and expertise and remained independent of BG Group and that the audit process was effective.

Following the tender process and the appointment of E&Y, the Committee reviewed the proposed engagement letter and determined the proposed remuneration of E&Y in accordance with the authority given to it by shareholders. The Committee considered the proposed auditors' remuneration to be appropriate.

The Group will continue the practice of the rotation of audit engagement partner at least every five years, and all other partners and senior management will be required to rotate at least every seven years.

Non-audit fees
The Committee believes that non-audit work may only be undertaken by the external auditors in limited circumstances. The Committee monitors the target that non-audit fees do not exceed 15% of the total audit fee in any year.

Focus is given to ensuring that engagement for non-audit services does not: create a mutuality of interest; place the auditors in a position to audit their own work; result in the auditors acting as a manager or employee; or put the auditors in the role of advocate for BG Group.

The Committee regularly reviews the nature of non-audit work performed by the auditors and the volume of that work. An analysis of fees paid in respect of audit and non-audit services provided by PwC for the past two years is disclosed in note 2, page 97. Having undertaken a review of the non-audit services provided during the year, the Committee is satisfied that these services were provided efficiently by the external auditors as a result of their existing knowledge of the business and did not prejudice their independence or objectivity.

Following the decision to appoint E&Y as external auditors, focus was given to the consideration of any work currently undertaken on behalf of the Group which, on their appointment, would constitute non-audit work and the Committee took an active role in monitoring the process for the re-tender of this work.

EXTERNAL AUDITOR TENDER

Firms invited to tender
Following notice to shareholders in the 2011 Annual Report and in a process led by the Chairman of the Audit Committee, the Group chose to limit the tender to the Big Four audit firms (PricewaterhouseCoopers LLP, Deloitte LLP, Ernst & Young LLP and KPMG Audit plc) to ensure all prospective firms had the required global coverage and depth of industry experience necessary to deliver the Group's audit scope.

Tender process
- Request for a proposal document was developed in consultation with the Chairman of the Audit Committee and the Chief Financial Officer.
- A tender team was appointed comprising senior representatives from Finance, Group Audit, Secretariat, Legal, Tax, and Contracts and Procurement.
- Following a review and evaluation of submissions by the tender team, all four firms were invited to present to the Chairman of the Audit Committee, the Senior Independent Director, the Chief Financial Officer and the tender team.
- A shortlist of two firms presented their proposals to members of the full Audit Committee in June 2012.

Criteria
Criteria for evaluation were developed which incorporated key aspects of the Financial Reporting Council's Audit Quality Framework and appropriate weighting was given to:

- **organisation, capability and service delivery** – including global coverage, industry experience and technical expertise;
- **audit quality** – including quality assurance and compliance procedures, audit methodology, partner rotation and succession planning;
- **audit approach** – including audit planning and scope, materiality and risk focus; and
- **team capability and fit** – including experience, team structure and supervision.

Cost effectiveness was considered to be a secondary award criterion and was addressed with the two short-listed firms during the final stage of the process.

SUSTAINABILITY COMMITTEE

SIR DAVID MANNING
CHAIRMAN OF THE SUSTAINABILITY COMMITTEE

COMMITTEE MEMBERS*

- Sir David Manning (Committee Chairman)
- Peter Backhouse
- Vivienne Cox
- Andrew Gould
- Dr John Hood
- Martin Houston
- Caio Koch-Weser

For full biographies, see page **44** to **45**

Safety is BG Group's first priority. As part of our focus on safety, during the year the Sustainability Committee reviewed HSSE and asset integrity performance at BG Group's operations in Queensland, Australia. The president and chief operating officer of Bechtel, the lead contractor at the QCLNG project, briefed the Committee on efforts to improve safety performance.

In addition to a relentless focus on safety, the Committee has reviewed with management the development and maintenance of a broad Licence to Operate strategy, tailored to countries where we operate already and potential new countries for future operations. Initiatives within this strategy include targeted, effective social investment. The Committee also reviewed BG Group's water strategy (see page 41) and agreed that water management was now a key licence to operate issue.

Separately, in October 2012, BG Group achieved its greenhouse gas (GHG) emissions reduction target, cutting emissions by more than 1.2 million tonnes per annum from 2007 to 2012. Following this, the Sustainability Committee has overseen the introduction of a new target for the next five years, which aims to reduce the overall intensity of the Group's GHG emissions by 10%.

The Committee also reviewed key developments in the management of ethical conduct in BG Group. In 2012, efforts to ensure high standards of ethical conduct included incorporating ethical conduct due diligence and risk management into Contracts and Procurement's sourcing and contract management processes.

Sir David Manning
Chairman of the Sustainability Committee

The Committee reviews and scrutinises BG Group's work in engaging with its stakeholders in government, the political world, civil society, the media and the communities in areas where the Group already operates, or may operate in the future. In this work, the Committee supports the establishment and maintenance of the Group's Business Principles and its Licence to Operate strategy.

Detailed terms of reference for the Committee can be found at **www.bg-group.com/sustainabilitycommittee**

Relevant skills and experience
The Committee comprises both Executive and Non-Executive Directors who bring a broad range of skills, experience and knowledge in relation to international finance and business leadership, geo-political and socio-economic matters, and the extractive industries.

Meetings of the Committee are normally attended by the Executive Vice President, Policy and Corporate Affairs and the Senior Vice President, HSSE, Asset Integrity and Group Well Risk Management.

Key activities during 2012
During the year, the Committee's key activities included:

- considering the Group's HSSE and asset integrity performance;
- considering regular reports on the Group's safety performance in QGC, including updates from Bechtel Corporation, the lead contractor for the QCLNG Project;
- reviewing the Group's participation in the United Nations Conference on Sustainable Development, Rio+20;
- considering the outcome of the Egyptian presidential and Queensland state elections;
- considering the Group's approach to new country entry and political and sustainability considerations regarding specific opportunities;
- adopting new targets for GHG emissions to 2017;
- reviewing the Group's water strategy and the particular approach to water management in Australia and Egypt, (see page 41); and
- reviewing the Group's management of ethical conduct, including bribery, corruption and political risks.

Egypt visit
In September 2012, members of the Committee visited Egypt as a part of the wider Board visit. Committee members met informally with the local management team, including the Asset General Manager, Vice President, Policy and Corporate Affairs, Social Performance Manager and the general manager, Rashpetco-Burullus. The Committee also met formally while in Cairo:

- to discuss the HSSE and asset integrity challenges facing the asset. The Committee heard from the local management team about the lessons learnt from the country evacuation during the 2011 revolution and the procedures now in place;
- to hear more about the specific environmental challenges facing the asset, including the solutions in place to manage waste water; and
- to understand further the social performance initiatives being developed, which included the further promotion of community consultation, such as the establishment of mobile community engagement units, and the development of the Sustainable Livelihoods Project.

*Sir Robert Wilson and Sir Frank Chapman stepped down from the Sustainability Committee on 16 May 2012 and 31 December 2012 respectively.
Vivienne Cox joined the Sustainability Committee on 10 April 2012.

Spadeadam test site

In October 2012, members of the Committee (and certain other Board members) took part in the Group's Major Accident Hazard Awareness programme at RAF Spadeadam in Cumbria. The programme included live full-scale major hazards simulations, dramatisation of a major accident case study, teaching sessions and interactive workshop discussions. The Committee felt that the course was very effective in its aim to build awareness of major accident hazards, their causes and effects, and highlight the measures employed by BG Group to manage the associated risks.

> **"The importance of rigorous safety standards in all our operations was brought to life by the programme; we were particularly impressed by the power of the case study dramatisations. We asked for a number of follow-up actions to allow us to monitor major hazards better and were united in the view that attendance on the course should be compulsory for people moving into operational leadership roles. We were also encouraged that a similar facility is now operational in Brisbane to allow more Group employees the opportunity to participate in this excellent programme."**

PETER BACKHOUSE
MEMBER OF THE SUSTAINABILITY COMMITTEE

2013 priorities

The Sustainability Committee's performance was assessed as part of the Board's Annual Effectiveness Review. It was concluded that the Committee operated effectively.

The Committee will continue to focus in 2013 on evolving political, regulatory and environmental issues and risks.

NOMINATIONS COMMITTEE

Andrew Gould (Committee Chairman)
Baroness Hogg
Dr John Hood
Sir David Manning

Key activities during 2012

- reviewed the size, balance and composition of the Board and recommended the appointment of Vivienne Cox and Lim Haw-Kuang as Directors of the Board;
- made recommendations to the Board with regard to the membership of Board Committees, in conjunction with the Chairman of each relevant Committee;
- reviewed with management the Group's management resources, and the succession and development plans for the most senior executive positions. The Committee and the wider Board also met with high-potential individuals over a specially organised dinner;
- made recommendations to the Board regarding the re-election of Directors by shareholders; and
- reviewed any potential Directors' conflicts of interest (under UK company law), and made recommendations to the Board for authorisation of any conflicts.

The Board's policy on diversity is set out in the Chairman's statement on page 48. The Board's external evaluation during 2012 noted the importance of securing sufficient industry and sector knowledge and global experience as part of the continued refreshment of the Board, and that diversity (including, but not limited to, gender) of backgrounds and professional experience would become an important future consideration.

Succession plans for the Non-Executive Directors and Executive Directors were kept under review during the year and the appointments of Vivienne Cox (February 2012) and Lim Haw-Kuang (March 2013) have assisted in adding sector knowledge and in reducing the gender imbalance on the Board (currently 15% female). Succession plans for the Senior Independent Director, Baroness Hogg, who has been on the Board for eight years, will begin to be actively considered during 2013.

The Committee will continue to review management's ongoing succession plans for the identification and development of senior management with potential for Board and GEC positions. This will include monitoring management's diversity (including gender) and global mobility initiatives which are becoming of increasing cultural importance as the international reach of the Group's operations grows. The Committee recognises that the traditionally male oil and gas industry faces a particular challenge on gender diversity but it supports management's current initiatives to strengthen the development programmes for women with the right skills and experience at all levels within the organisation. The Committee (on behalf of the Board) supports the aspiration of management to increase the proportion of women in leadership positions (including at Board level) to an overall 20% by 2020, and to foster greater gender diversity in recruitment at graduate level.

During the year, the Committee considered the continued appointment of Peter Backhouse who has served on the Board for over 12 years. The Committee considered that Mr Backhouse should be invited to remain as a Non-Executive Director for one further year in light of his accumulated knowledge of the Group and his wider industry expertise. In taking this decision, the Committee took into consideration that Mr Backhouse's skills and experience would prove useful support for the Board during Chris Finlayson's first year as Chief Executive.

The Committee also considered the continued appointment of Philippe Varin and concluded that, in view of Mr Varin's ongoing commitments as chairman of the managing board at PSA Peugeot Citroën, it would be appropriate for him to retire as a Non-Executive Director.

During the year, the Committee retained the services of the search consultants JCA Group to assist in identifying potential candidates for nomination to the Board. JCA Group is a signatory to the Voluntary Code of Conduct on gender diversity and best practice.

FINANCE COMMITTEE

Andrew Gould (Committee Chairman)
Chris Finlayson
Den Jones

The Committee is responsible for funding and treasury policy decisions. During the year, the Committee considered reports on treasury activity, the Group's funding plans, cash management, hedging and forward gas sales. In July 2012, the Committee approved the increase and extension of the Group's committed bank credit facilities to $5.2 billion. The Committee also oversaw the work streams regarding the issuance of a hybrid bond in June 2012 which resulted in just over $2 billion being raised across three currencies in a period of three days. The Committee will continue to monitor the Group's funding requirements and debt market conditions during 2013.

CHAIRMAN'S COMMITTEE

Andrew Gould (Committee Chairman)
Chris Finlayson
Den Jones

The role of the Chairman's Committee is to advise and assist the Chairman in the preparation for Board meetings. The Committee also acts on behalf of the Board between scheduled meetings, within clearly defined delegated authority.

Remuneration Committee

The Committee's principal responsibility is for setting, reviewing and recommending to the Board for approval BG Group's overall remuneration policy and strategy, and setting remuneration arrangements for Executive Directors, members of the GEC and Company Secretary. Full details of the Committee's responsibilities, and a report of its activities during the year, are set out in the **Remuneration report** on pages 60 to 75.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The UK Listing Rules stipulate that listed companies must include in their annual report a statement of whether the company has complied with all the relevant provisions of the UK Corporate Governance Code (the Governance Code). In September 2012, the Financial Reporting Council (FRC) published a new version of the Governance Code (the New Code). The New Code applies to BG Group from 1 January 2013. While reporting under the Governance Code in relation to 2012, BG Group is committed to operating in accordance with the highest standards of corporate governance and has already implemented and complied with all the provisions of the New Code.

The notes below are intended to assist with the evaluation of the Group's compliance during 2012, although they should be read in conjunction with the Corporate governance report as a whole.

Section A: Leadership

A.1 The role of the Board

The Board is responsible to BG Group's shareholders for creating and delivering sustainable shareholder value through the management of the Group's businesses within the Governance Framework, details of which can be found on page 52.

The Board oversees the Group's strategy, and ensures that necessary resources are available, and that appropriate controls, values and standards are in place to deliver it. As well as oversight responsibility for financial performance, internal controls and risk management of the Group, the Board has a formal schedule of matters specifically reserved to it for decision. These include: approving material capital projects, investments, disposals, litigation and arbitration; the Group's funding plan and annual capital and revenue budget; any interim dividends, and recommending the final dividend; and any changes in the capital structure of the Group. A full list of the matters reserved to the Board is published at **www.bg-group.com/governance**

The Board has regular scheduled meetings throughout the year and holds additional meetings as and when required. The Board met formally on 10 occasions during 2012. Directors are expected, wherever possible, to attend all Board meetings, relevant Committee meetings and the AGM. Details of attendance at each of the Board and principal Committee meetings during 2012 are set out on page 51.

All Directors are covered by the Group's Directors' and Officers' Insurance policy.

A.2 Division of responsibilities

The posts of Chairman and Chief Executive are separate, with responsibilities clearly delineated, set out in writing and agreed by the Board. Descriptions of the roles and responsibilities of the Chairman and Chief Executive are also available at **www.bg-group.com/chairmanandchiefexecutive**

The Chairman, Andrew Gould, is responsible for the workings and leadership of the Board and for the balance of its membership (including the Board's Committees). The Chief Executive, Sir Frank Chapman (until 31 December 2012) and Chris Finlayson (from 1 January 2013), is responsible for leading and managing the business within the authorities delegated by the Board.

A.3 The Chairman

The Chairman sets the Board's agenda and ensures that there is adequate time for the discussion of all items. The annual Board Planning Conference is dedicated to the consideration of strategic issues. Further detail of the 2012 Board Planning Conference can be found on page 49.

At the time of his appointment, in May 2012, the Chairman was considered independent by the Board. In particular, the Board considered that he had been the chief executive officer and non-executive chairman of Schlumberger until August 2011 and April 2012 respectively. Having considered the nature and extent of the relationship between BG Group and Schlumberger, and the absence of any material involvement by Andrew Gould in that relationship, the Board was satisfied that Andrew Gould was independent and that the supply of services by Schlumberger to BG Group did not affect his independence in carrying out his role as a Director. In accordance with the Governance Code, the ongoing test of independence for the Chairman is not appropriate.

Baroness Hogg, as Senior Independent Director, led the selection and appointment process of Andrew Gould as the new Chairman. Further details on Andrew Gould's appointment as Chairman are set out in the 2011 Annual Report and Accounts.

A.4 Non-Executive Directors

Baroness Hogg is the Senior Independent Director. Her responsibilities include meeting major shareholders as an alternative point of contact to the Chairman, Chief Executive or Chief Financial Officer. The role of the Senior Independent Director is clearly established, set out in writing and agreed by the Board. The description of the role is available at **www.bg-group.com/SID**. Baroness Hogg is expected to commit at least three to four days per year to the role, and significantly more in exceptional circumstances. This is in addition to the expected time commitment in her capacity as a Non-Executive Director.

Baroness Hogg and the Non-Executive Directors considered, without the Chairman present, the Chairman's performance as part of the externally facilitated Board evaluation. The Chairman also met with the Non-Executive Directors without the Executive Directors being present and individually with each Non-Executive Director.

During the year, there were no unresolved concerns about the running of the Company or a proposed action.

Section B: Effectiveness

B.1 The composition of the Board

During the year, the Board reviewed the overall balance of skills, experience, independence and knowledge of Board and Committee members and made a number of changes to ensure that Committee membership was appropriately refreshed. Vivienne Cox joined the Remuneration and Sustainability Committees and Caio Koch-Weser joined the Audit Committee.

The Board considers all of its Non-Executive Directors to be independent and free of any business relationship or other circumstance that could compromise the exercise of independent and objective judgement. The Board undertakes an annual review of the independence of its Non-Executive Directors in accordance with the criteria set out within the Governance Code. There are currently 10 Non-Executive Directors and three Executive Directors on the Board.

By the date of the 2013 AGM, Peter Backhouse will have served on the Board for almost 13 years. In accordance with the Governance Code, the Board has determined that Peter Backhouse has retained independence of character and judgement and has not formed associations with the Company that might compromise his ability to exercise independent judgement, notwithstanding his length of service. Further details concerning Mr Backhouse's continued appointment are set out in the **Nominations Committee report** on page 57.

B.2 Appointments to the Board

Chris Finlayson was appointed as Chief Executive on 1 January 2013. The succession process and Chris Finlayson's ultimate appointment was overseen by the Non-Executive Directors. Further details are set out in the **Chairman's statement** on page 6.

In addition, Vivienne Cox was appointed as a Non-Executive Director in February 2012 and Lim Haw-Kuang was appointed a Non-Executive Director in March 2013. Further details on appointments to the Board are set out in the **Nominations Committee report** on page 57, with the Board's policy on diversity provided on pages 48 and 49.

Den Jones was appointed as Interim Chief Financial Officer and Executive Director on 15 February 2013 following a period as Alternate Director to Fabio Barbosa. His appointment was overseen by the Board. Further details are set out on page 48.

B.3 Commitment
The Board has taken into consideration the external commitments of its Chairman and Non-Executive Directors and is satisfied that these do not conflict with their duties and time commitments as Directors of the Company.

B.4 Development
All Directors appointed to the Board receive a full induction programme, taking into account their qualifications and experience. Details of the induction programme received by Vivienne Cox can be found on page 50. A tailored induction programme for Lim Haw-Kuang will be agreed with the Company Secretary.

The Directors receive a number of teach-ins each year. Details of teach-ins during 2012 are set out on page 50.

B.5 Information and support
The Directors have full access to the advice and services of the Company Secretary, who is also responsible to the Board for ensuring that correct Board procedures are followed; advising on all governance matters; ensuring effective communication flows within the Board and its Committees, and between senior management and Non-Executive Directors; and facilitating induction and assisting with the ongoing professional development of Directors. Further details on the Company Secretary's responsibilities are available on the governance section of our website: **www.bg-group.com/governance**. The appointment or removal of the Company Secretary is a matter for the Board as a whole.

Guidelines are in place concerning the content, timeliness and presentation of Board and Committee papers from management to ensure that the Board is properly briefed.

Directors may obtain independent professional advice at the Company's expense if they believe it may be required in furtherance of their duties.

B.6 Evaluation
In 2012, performance evaluations of the Board, its Committee and individual Directors were externally facilitated by Dr Tracy Long, who had no other connection with the Group. The evaluation considered the balance of skills on the Board, independence, knowledge of the Company, and diversity (including gender). Further details of the evaluation can be found on page 50.

The Non-Executive Directors, led by Baroness Hogg, the Senior Independent Director, were responsible for the performance evaluation of the Chairman, which included the external Board evaluation.

The Directors concluded that, following the evaluation, the Board and its Committees operate effectively and that each Director contributes effectively and demonstrates commitment to the role.

B.7 Election/re-election
All Directors are subject to election at the first AGM following their appointment. Accordingly, Den Jones and Lim Haw-Kuang will stand for election at the 2013 AGM. All other Directors (with the exception of Sir Robert Wilson, Sir Frank Chapman, Philippe Varin and Fabio Barbosa, who stood down from the Board on 16 May 2012, 31 December 2012, 11 February 2013 and 15 February 2013 respectively) remain subject to annual re-election and the Board unanimously recommends their re-election. Full biographical details for all Directors can be found on pages 44 to 45 and in the full Notice of AGM.

Section C: Accountability
C.1 Financial and business reporting
In accordance with the 2010 Governance Code, a statement of the Directors' responsibilities regarding the Financial statements, including the status of the Company as a going concern, is set out on pages 78 to 79. To support a balanced and understandable assessment of the Group, an explanation of the Group's strategy and business model, together with relevant risks and performance metrics, is set out on pages 10 to 11.

In line with the revised Governance Code issued in September 2012, a further statement is provided on page 79 confirming that the Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

C.2 Risk management and internal control
The Board has established processes designed to allow it to assess the effectiveness of the internal control environment within the Group. Further details can be found on pages 52 and 79.

BG Group's internal controls provide reasonable, rather than absolute, assurance against material loss or misstatement and are designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

C.3 Audit Committee and auditors
Details of the composition of the Audit Committee, including the background of members, are set out on pages 54 to 55.

The Audit Committee assists the Board in fulfilling its responsibilities in respect of: overseeing BG Group's financial reporting processes; the way in which management ensures and monitors the adequacy of financial, operational and compliance controls and business risk management processes; the appointment, remuneration, independence and performance of the Group's external auditors; and the independence and performance of Group Audit. Further details are provided in the terms of reference for the Committee which are available at **www.bg-group.com/auditcommittee**

Details of how the Committee has discharged its responsibilities during the year are provided in the **Audit Committee report** on pages 54 to 55.

Section D: Remuneration
D.1 The level and components of remuneration
The Board believes that the Group's remuneration policy continues to enable the Group to attract, retain and motivate the executive talent required for the delivery of its business strategy, while linking closely to the long-term performance of the Group and the interests of shareholders. For further information, see the **Remuneration report** on pages 60 to 75 which details how remuneration is clearly structured to align with corporate and individual performance over the long term.

D.2 Procedure
The principal responsibilities of the Remuneration Committee are setting, reviewing and recommending to the Board for approval BG Group's overall remuneration policy and strategy, and setting the remuneration arrangements for Executive Directors and members of the GEC. Further details are available in the terms of reference for the Committee which are available at **www.bg-group.com/remunerationcommittee**. Full details of the Committee's activities during the year are set out in the **Remuneration report** on pages 60 to 75. During 2012, no individual was present when their own remuneration was being discussed.

Section E: Relations with shareholders
E.1 Dialogue with shareholders
Effective communication and engagement with investors is of paramount importance to the continued success of the Company. The Chief Executive and Chief Financial Officer give presentations on the quarterly results in meetings with institutional investors, analysts and the media, which are also accessible by webcast and teleconference. These presentations are available at **www.bg-group.com/investorrelations**

Throughout the year, there is regular dialogue with shareholders through meetings, presentations and roadshows. Throughout 2012, Executive Directors and members of the GEC met with shareholders in the UK, USA, France, Australia and Brazil. This included more than 30 roadshows, 100 meetings and attendance at 11 conferences.

The Chairman and Non-Executive Directors, including the Senior Independent Director, are available to meet with institutional shareholders to discuss any matters relating to BG Group's governance and strategy.

BG Group's website contains information of interest to both institutional and private shareholders, including specific information for private shareholders relating to the management of their shareholdings.

Further details about engagement with shareholders can be found in the Chairman's statement on page 49.

E.2 Constructive use of the AGM
The AGM will be held on 23 May 2013 and is an opportunity for shareholders to vote on certain aspects of BG Group business. It is also an opportunity for those shareholders who are able to attend to ask questions of the Board of Directors, including the Chairmen of the Audit, Remuneration, Sustainability and Nominations Committees, and the Company Secretary. The **Notice of AGM** is sent to all shareholders who have requested to receive hard copy documentation from the Company. The Notice is also available at **www.bg-group.com/NOM**

REMUNERATION REPORT

THE REMUNERATION COMMITTEE IS FOCUSED ON ENSURING BG GROUP'S REMUNERATION POLICY IS ALIGNED WITH SHAREHOLDERS' INTERESTS AND ENABLES IT TO ATTRACT, RETAIN AND MOTIVATE EXECUTIVE TALENT.

DR JOHN HOOD
CHAIRMAN OF THE REMUNERATION COMMITTEE

"On behalf of the Board, I am pleased to present the Directors' report on remuneration for 2012, for which we will be seeking approval from shareholders at our AGM."

The Committee believes it is essential that BG Group's remuneration policy is clearly aligned with the interests of shareholders. The Committee's focus is on continuing to ensure BG Group's remuneration policy and components of reward are appropriately positioned in the market to enable it to attract, retain and motivate the executive talent required for delivery of its long-term business strategy.

As set out on page 68, the underlying performance of the business during 2012 relative to the annual bonus performance metrics set was solid. Accordingly, a bonus award would normally have been considered at a level between target and stretch. However, the Executive Directors and the former Chief Executive all concluded that, in recognition of the revision of BG Group's anticipated production growth for 2013 and the share price fall in the final quarter of the year, it would be inappropriate for them to be considered for a bonus in respect of 2012. The Committee agreed with this and, consequently, no bonuses for 2012 were awarded to the Executive Directors and former Chief Executive.

The subject of executive reward continues to be an area of focus for shareholders and the wider public. During 2012, the Department for Business, Innovation & Skills (BIS) issued two consultation documents on this subject. While the new regulations governing the shareholder approval and reporting of executive reward which have resulted from this consultation process will not come into force until BG Group's 2013 financial year, we have incorporated a number of changes included in the 2012 draft proposals this year.

In summary, the changes are:

- division of the report into two distinct sections: the first (pages 61 to 66) dealing with BG Group's remuneration policy; and the second (pages 66 to 75) with the implementation of that policy during 2012 (this section also includes information required to be reported under current legislation and regulations);
- the policy section sets out the components of reward, how they are linked to the business strategy, and reward opportunities for each of the Executive Directors; and
- the implementation section reports remuneration of the Executive Directors for the 2012 financial year and includes a table showing the build-up of total pay for each Executive Director.

Further draft regulations were published by BIS on 8 March 2013 and these will be considered for reporting purposes in our 2013 Remuneration Report. As set out in our Notice of AGM, there will continue to be a single advisory vote on our 2012 Remuneration report at this year's AGM.

We announced in December 2012 that Chris Finlayson, previously Executive Director and Managing Director, BG Advance, would succeed Sir Frank Chapman as Chief Executive on 1 January 2013. Further details of the reward arrangements of the new Chief Executive are outlined to the right of this letter.

The market in which BG Group operates and competes for talent is global. The Committee believes that the Group's overall remuneration policy, reward components and emphasis on performance-related reward continue to be appropriate. However, it will keep these under review.

On behalf of the Board, I would like to thank shareholders for their continued support.

Dr John Hood
Chairman of the Remuneration Committee

Chief Executive – Chris Finlayson
As announced on 13 December 2012, Chris Finlayson succeeded Sir Frank Chapman as Chief Executive on 1 January 2013. The key elements of Chris Finlayson's reward arrangements, which will apply from the date of his appointment as Chief Executive, are summarised below. These arrangements are consistent with BG Group's remuneration policy.

Base salary
£975 000 (next review will be effective 1 April 2014).

Pension
Cash in lieu of pension (30% of base salary).

Bonus (Annual Incentive Scheme)
Target 100% of base salary.
Maximum 200% of base salary.

Long-Term Incentive Plan
It is anticipated that Performance Share Awards under the Long-Term Incentive Plan (LTIP) will be granted in early September 2013. Any award will be consistent with the LTIP provisions summarised in the remuneration policy table on pages 62 and 63.

Further information on each of the plans outlined above is provided in the **Policy** and **Implementation sections** of this report.

Sir Frank Chapman
Sir Frank stepped down from the Board and GEC with effect from 31 December 2012. He will continue to work and be employed by BG Group, supporting the Chief Executive transition, until his retirement in June 2013.

He will continue to receive his base salary and other elements of his current reward package until his retirement. His outstanding share awards under the Deferred Bonus Plan (DBP) and LTIP will vest on the date of his retirement in accordance with the rules of those plans. In respect of the LTIP, awards will only vest to the extent that the performance conditions have been met at the end of the month prior to his month of retirement. Time pro-rating will apply.

COMMITTEE MEMBERS*

- Dr John Hood (Committee Chairman)
- Vivienne Cox
- Andrew Gould
- Patrick Thomas

For full biographies, see page **44** to **45**

REMUNERATION COMMITTEE

The Committee's principal responsibilities are:

- setting, reviewing and recommending to the Board for approval the Group's overall remuneration policy and strategy;
- setting, reviewing and approving the remuneration arrangements (including any bonuses, incentive payments, share awards, pension and benefit arrangements, and termination payments) of the Chairman, Chief Executive and Executive Directors;
- reviewing and approving the remuneration arrangements (including any bonuses, incentive payments, share awards, pension and benefit arrangements, and termination payments) of members of the GEC who are not Executive Directors, and the Company Secretary; and
- reviewing and approving the rules of (and any significant amendment to) any long-term incentive plan (whether cash or share-based), deferred bonus plan, cash-based incentive plan, or share plan, subject to final approval by the Board and/or shareholders, where necessary.

The full terms of reference of the Committee can be found on the BG Group website at **www.bg-group.com/remunerationcommittee** and copies are available on request.

POLICY SECTION

Remuneration policy
BG Group's remuneration policy is clear and well-defined and is summarised below:

SUMMARY OF BG GROUP'S REMUNERATION POLICY FOR EXECUTIVE DIRECTORS AND OTHER MEMBERS OF THE GROUP EXECUTIVE COMMITTEE

Shareholder-aligned	• The performance-related incentive arrangements are designed to align the interests of executives with those of shareholders and establish a clear link between remuneration and sustained individual and corporate performance. • BG Group's shareholding guidelines encourage Executive Directors, GEC members and certain other senior employees to build up (over a period of five years from appointment) and retain a minimum holding of shares.
Market-competitive and aligned with the UK Corporate Governance Code	• The policy is designed to deliver reward that will facilitate the recruitment, retention and motivation of the executive talent necessary to deliver successfully BG Group's growth strategy. • It takes appropriate account of the Governance Code and best practice guidelines published by regulators and institutional shareholder bodies.
Performance-related	• At the Executive Director and senior manager levels, the majority of the reward opportunity is provided through performance-related incentives. • Reward under these incentives is linked to both individual and BG Group's performance. When setting targets and assessing performance, appropriate account is taken of business risk and the delivery of sustained returns to shareholders.

The above principles are reviewed annually to ensure they continue to be appropriate and support BG Group's business strategy.

Market-competitive reward
BG Group aims to provide market-competitive levels of reward designed to assist it in attracting, recruiting and retaining the executive talent required to deliver the business strategy. A large proportion of the reward opportunity is performance-related, providing executives with the potential to receive significant amounts where exceptional sustained performance is achieved. The key reward components provided to the Executive Directors (and other members of the GEC) are reviewed annually on a total reward basis. Individual components of reward are not reviewed in isolation. Instead, the overall reward package is considered. This review typically takes place prior to any changes in Executive Directors' base salaries which, if made, normally take effect from 1 April in any year. (The key components of reward and their linkage to BG Group's business strategy are summarised on pages 62 and 63).

The annual review involves consideration of a number of factors, including the individual's performance and experience, overall corporate performance, the position of each Executive Director's reward package relative to the market, and pay and employment conditions across the Group. The principal external comparator groups, against which Executive Directors' reward is reviewed, currently include the FTSE 30 (excluding financial services) and BG Group's most closely comparable international oil and gas peers, although these groups too are kept under review to ensure they remain appropriate.

In defining BG Group's remuneration policy, the Committee takes into account advice received from external consultants and also best practice guidelines set by regulators and institutional shareholder bodies, including the principles and guidelines on executive remuneration issued by the Association of British Insurers (ABI). The Committee has also followed the principles of Section D of the UK Corporate Governance Code that relate to remuneration.

The current intention is that the framework of this remuneration policy which operated during 2012 will apply for future years.

*Sir Robert Wilson and Philippe Varin stepped down from the Remuneration Committee on 16 May 2012 and 11 February 2013 respectively.
Vivienne Cox joined the Remuneration Committee on 10 April 2012.

Performance-related reward
The majority of the reward opportunity provided to Executive Directors (and other members of the GEC) is through performance-related incentives.

Executive Directors and other members of the GEC participate in two performance-related incentive arrangements, as follows:

- the Annual Incentive Scheme – designed to focus the executives on the business priorities of the financial year and to reinforce the individual and Group performance ethic; and
- the Long-Term Incentive Plan – designed to reward and retain executives over the longer term while also aligning their interests with those of BG Group shareholders. The LTIP allows for various types of awards to be made (specifically Group Share Awards*, Performance Share Awards and Market Value Options).

The two incentive arrangements complement each other and enable the measurement and reward of both short and long-term performance. In particular, the Committee considers that these complementary incentive arrangements take appropriate account of business risk and align the reward arrangements of executives with the delivery of sustained returns to shareholders.

*To date, Group Share Awards under the LTIP have only been granted to employees below the GEC level.

SUMMARY OF BG GROUP'S REMUNERATION POLICY FOR EXECUTIVE DIRECTORS AND OTHER MEMBERS OF THE GROUP EXECUTIVE COMMITTEE

PURPOSE AND LINK TO STRATEGY	OPERATION
Fixed pay	
Base salary To attract and retain talent by ensuring base salaries are competitive in the market in which the individual is employed.	Generally reviewed annually, and any increase typically takes effect from 1 April. The review involves the consideration of market position relative to relevant comparator groups, and is also influenced by: • the individual executive's role, experience and performance; • business performance, and the wider market and economic conditions; and • the range of salary increases applying across the Group.
Benefits Designed to be competitive within the market in which the individual is employed.	Benefits typically include life assurance, annual leave and medical insurance. Where appropriate, a company car or cash in lieu and/or flexible benefit arrangements may be offered. Chauffeur services, where appropriate to assist with their roles, may also be provided. Executives may also participate in all-employee share plans on the same terms as other employees.
Pension Designed to be competitive within the market in which the individual is employed.	Executives who have joined BG Group since April 2007 can choose to participate in the relevant local defined contribution pension arrangement or receive a cash allowance or a combination thereof. Executives who joined BG Group in the UK prior to April 2007 can continue to participate in the UK defined benefit pension arrangement which is closed to new entrants.
Variable pay	
Annual Incentive Scheme *Cash, automatic deferral, voluntary deferral* Performance metrics are selected each year to focus executives on the strategic business priorities for the financial year. The Deferred Bonus Plan (DBP) and the Voluntary Bonus Deferral Plan (VBDP) are also designed to provide further alignment with shareholder interests.	The Annual Incentive Scheme (AIS) is reviewed annually prior to the start of each financial year to ensure the bonus opportunity, performance measures and weightings are appropriate and continue to support the business strategy. Stretching financial and non-financial performance targets are set at the start of each financial year. Actual AIS amounts are determined via a two-stage process. Firstly, performance against the agreed metrics is assessed. Secondly, the Committee reviews these results in the context of underlying business performance and may adjust the stage one outcome at its discretion. AIS awards are subject to automatic and voluntary deferral into awards over BG Group shares. Automatic deferral for AIS awards in excess of 100% of base salary is under the DBP into Deferred Bonus Awards over BG Group shares. The vesting of Deferred Bonus Awards may be reduced in circumstances where the Company becomes aware of misconduct or performance issues relevant to the bonus award year. Executives are also able to defer voluntarily a proportion of their AIS award into a Deferred Share Award over BG Group shares under the VBDP in the same way as other eligible employees. The automatic and voluntary deferral arrangements are reviewed periodically. Details of the arrangements applying in 2012 and 2013 are set out in the **Implementation section** on page 69.
Long-Term Incentive Plan *Awards over BG Group shares* Designed to reward and retain executives over the longer term while aligning their interests with those of BG Group shareholders.	To date, the Committee has granted only Performance Share Awards to members of the GEC. The Award levels and performance conditions on which vesting will be dependent are reviewed annually to ensure they remain appropriate. Awards are typically granted annually in September. A number of factors are considered when determining the level of any grant of Performance Share Awards, including position of the executive's reward package relative to the market; the executive's performance and experience; the face value and estimated present value (EPV) of the proposed award; and plan dilution limits.

OPPORTUNITY	PERFORMANCE METRICS	CHANGES IN 2013
Base salary increases will be applied in line with the outcome of the review.	Individual and business performance are considerations in setting base salary.	No change has been made to the salary review process. Base salary increases consistent with this policy were made effective 1 April 2012 as set out in the **Implementation section** on page 67. The policy will continue to operate for the 2013 base salary review process.
Benefit values vary by role and are reviewed periodically to market.	Not performance-related.	No changes have been made to the structure of the benefits offered during the year. No changes are planned for 2013.
Current pension opportunity varies dependent upon the scheme in which the executive is a participant. Details for the current Executive Directors are set out in the **Implementation section** on page 73.	Not performance-related.	Subject to the outcome of statutory employee consultation, it is proposed that the legacy UK defined benefit arrangements will close to future accrual from 1 December 2013.
The AIS offers a maximum opportunity of up to 200% of base salary with a target opportunity of up to 100% of base salary. Each year, the Remuneration Committee determines maximum and target AIS opportunities on an individual basis within those scheme limits. Individual limits for Executive Directors for 2012 and 2013 (which vary by role) are set out in the **Implementation section** on page 68. Scheme limits may be exceeded in exceptional circumstances, such as recruitment.	Executives' performance is measured relative to challenging budget and stretch targets in key operational areas. The areas selected, and their relative weighting, vary each year depending upon strategic priorities. Measures used for the 2012 AIS, are set out in the **Implementation section** on page 68.	No changes are being made to the AIS performance metrics or opportunity range for 2013.
Individual awards under the LTIP are subject to the following limits in normal circumstances: • an overall EPV limit of 300% base salary; and • the face value of each type of award cannot exceed 600% of base salary. Both limits may be exceeded in exceptional circumstances, such as recruitment. EPV is a measure that describes the economic or fair value of an award. The measure takes account of the performance conditions and the risk that grants and allocations may be forfeited. EPV is calculated independently by the Committee's advisers. The face value of an award is equal to the number of shares, or shares under option, multiplied by the relevant share price.	Performance Share Awards do not normally vest until the third anniversary of the date of grant. The vesting of the awards granted is usually subject to the following conditions: • continued employment; • the individual's performance not having fallen significantly below that expected since the date of grant; and • the Company's performance over a three-year performance period. Performance measures applied to LTIP awards are reviewed annually by the Committee to ensure they remain relevant to strategic priorities and aligned to shareholder interests. Measures used for the 2012 LTIP award are set out in the **Implementation section** on page 69. In exceptional circumstances, such as recruitment, Performance Share Awards or Market Value Options may be granted without performance conditions.	Following the completion of the strategy review currently being undertaken by the new Chief Executive (due to be announced on 14 May 2013), the performance measures applying for future grants (including those to be granted in September 2013) of Performance Share Awards will be reviewed. In line with the commitment given to shareholders at the 2008 AGM, to the extent that any changes are made to the performance conditions and the new conditions are not substantively the same as existing conditions, these will be discussed with major shareholders before any awards are made.

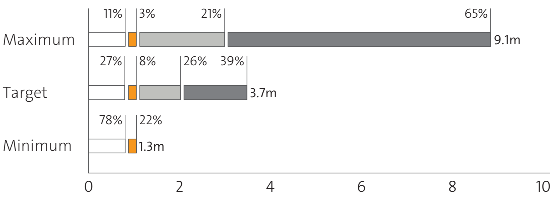
ILLUSTRATION OF POTENTIAL REWARD OPPORTUNITIES FOR THE EXECUTIVE DIRECTORS

The graphs below provide estimates of the potential future reward opportunity for each of the Executive Directors based on their roles (effective 1 January 2013), the remuneration policy outlined on page 61 and the base salary at 1 April 2012 (except in the case of the new Chief Executive, Chris Finlayson, where the base salary effective 1 January 2013 has been used). Fabio Barbosa stepped down from the Board and GEC with effect from 15 February 2013. As the process for selecting a permanent replacement is currently ongoing, the reward package for Fabio Barbosa has been used in the illustration below, as it is anticipated that the ongoing package of any replacement will be based on similar principles.

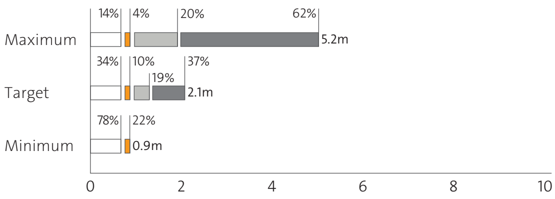
As all the Executive Directors are paid in Pounds Sterling, the Committee considers it appropriate that the figures detailed below be presented in Pounds Sterling. The amounts illustrated are annualised.

The figures reported above each scenario bar chart represent percentage of total remuneration.

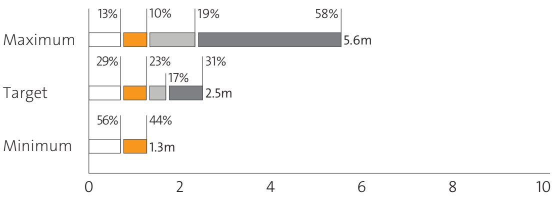
Chris Finlayson, Chief Executive
(£ million)



Fabio Barbosa, former Chief Financial Officer
(£ million)



Martin Houston, Chief Operating Officer
(£ million)



○ Salary and benefits ● AIS
● Pension ● LTIP

For AIS, the amounts illustrated are those potentially receivable in respect of performance for 2013. For the LTIP, the award opportunities are those expected to be granted in 2013 assuming award levels remain the same as a percentage of base salary as those awarded in 2012 (see page 70). It should be noted that the LTIP awards granted in a year do not normally vest until the third anniversary of the date of grant. As set out in the remuneration policy table on page 62, the Company operates mandatory deferral of AIS amounts into BG Group shares under the DBP for AIS awards in excess of 100% of base salary, and voluntary deferral under the VBDP.

In illustrating potential reward opportunities the following assumptions have been made:

	AIS	LTIP	Base and pension
Maximum	AIS amounts are awarded at maximum level.	Performance such that awards vest at maximum level (100% of awards made).	Base salary, benefits and pension or cash in lieu of pension are provided in all scenarios. The Chief Executive and Chief Financial Officer receive cash in lieu of pension (at a rate of 30% of base salary); the Chief Operating Officer participates in a defined benefit pension. It has been assumed this continues throughout 2013. The estimated cost has been calculated in accordance with the currently proposed BIS methodology.
Target	AIS amounts are awarded at target levels.	Performance such that awards vest at threshold level (25%).	
Minimum	Threshold level for each metric not achieved. No AIS payable.	Threshold performance not achieved.	

In all scenarios, the impact of share price movements on the value of LTIP awards, mandatory AIS deferrals into the DBP and voluntary deferrals into the VBDP have been excluded.

Cascade to senior executives below the Executive Directors

The policy and practice with regard to the remuneration of senior executives below the Executive Directors who are members of the GEC is consistent with that for the Executive Directors. These senior executives all have a significant portion of their reward package linked to performance. They are eligible for the AIS and awards under the LTIP and their financial and non-financial performance targets are cascaded from the targets for the Executive Directors. The Committee reviews and approves the individual remuneration packages for the GEC members and the Company Secretary in accordance with the overriding objectives of the Group's remuneration policy. Their individual performance is reviewed and any increase in their base salary, AIS payments and any LTIP awards is subject to approval by the Committee each year.

Senior employees below GEC level are generally treated consistently with the Executive Directors and members of the GEC, with the exception that they may participate in local discretionary plans. They are also eligible to receive awards under the LTIP, subject to the overall limits on levels of individual awards under the LTIP.

Awards under the LTIP may take the form of Performance Share Awards, Market Value Options or Group Share Awards. Group Share Awards will normally vest three years after the date of grant subject to continued employment and the individual employee's performance not having fallen significantly below that expected since the date of grant.

Eligible employees (other than members of the GEC) who participate in the VBDP are able to benefit from a 10% uplift on the proportion of AIS deferred, provided they hold their deferred award for at least three years.

Employee context

BG Group values its employees and aims to provide reward packages that are market-competitive within that employee's country of employment. The structure of employees' reward cascades from that of the executives and senior management. Where appropriate and feasible (for example under local legislation or practice) employees participate in the AIS and LTIP arrangements, with their target and maximum levels of participation being set by reference to the local market in which they are employed.

In order to encourage share ownership, the Company currently provides two all-employee UK HM Revenue & Customs (HMRC) approved share plans for its UK employees: the Share Incentive Plan (SIP) and Sharesave; and for non-UK employees in a number of key overseas locations, an all-employee Global Partnership Plan is provided.

The Committee is kept regularly informed of the pay and benefits provided to employees below the GEC. In particular, as set out in the remuneration policy table on page 62, when considering the base salary increases for executives, one of the factors considered by the Committee is the range of base pay increases applying elsewhere in the Group.

The following table provides a summary of the 2012 increase in base salary for the Chief Executive, as compared with the average increase for the general employee population in April 2012.

	Most recent base salary increase (effective 1 April 2012)	Base salary increase (effective 1 April 2011)
Chief Executive	3.3%	3.6%
General employee population	4.6%[a]	5.2%[a]

(a) Average increase.

The Committee does not directly consult with employees when formulating Executive Director pay policy. However, it does take into account information provided by the Human Resources function and feedback from employee satisfaction surveys.

Further details of the base salary increases awarded during 2012 to the Executive Directors are set out in the **Implementation section** of this report on page 67.

Service contracts

The Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Directors of the quality required to manage the Company. The Committee considers that a rolling contract with a notice period of one year is appropriate.

The Committee does reserve the right, in order to attract and retain suitable candidates, to offer contracts that contain an initial notice period in excess of one year, reducing to a rolling one-year period after the expiry of this period.

Summary of key elements of service contracts of the Executive Directors

Provision	Summary of key terms
Notice period	12 months.
Retirement date	There is no default retirement age. Requests for retirement are considered on a case by case basis. At the Executive Director level, it is expected that at least 12 months' notice must be provided.
Remuneration	Base salary.
	Pension or cash alternative.
	Company car or cash allowance.
	Eligibility to participate in annual and long-term incentive arrangements operated from time to time.
Termination payment	Contractual provisions exist in the event of a change of control (see paragraph below). The rules of the AIS and LTIP also include certain provisions on termination of employment. These are discussed further in the Exit payments policy section on page 66.
Non-competition	During employment and for six months thereafter.

In line with the Company's policy, the Executive Directors' service contracts contain change of control provisions. Should the Executive Director's employment be terminated within 12 months of a change of control, they are entitled to liquidated damages. The amount of liquidated damages is equal to one year's gross salary plus currently a credit of one year's pensionable service for those Executive Directors who are members of the defined benefit pension scheme (or one year's cash allowance in lieu of pension if the Executive Director is not or is no longer accruing any entitlement to post-retirement defined benefits) less any deductions the employer is required to make, which the Committee considers to be a genuine pre-estimate of loss. The Committee considers that these provisions assist with recruitment and retention and that their inclusion is therefore in the best interests of shareholders.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS AS AT 31 DECEMBER 2012

Details of the service contracts of the Executive Directors who served during the year are set out below:

Executive Directors	Contract date	Unexpired term
Fabio Barbosa	20 Apr 11	rolling 1yr
Sir Frank Chapman[a]	14 Sep 00	6 months
Chris Finlayson	14 Mar 12	rolling 1yr
Martin Houston	03 Feb 09	rolling 1yr

(a) Sir Frank Chapman's service contract will terminate on his retirement in June 2013.

Exit payments policy

Other than change of control, the Executive Directors' service contracts do not contain provisions for compensation in the event of early termination. When determining termination payments, the Committee takes into account a variety of factors, including individual and Company performance, the obligation for the Director to mitigate his or her own loss (for example, by gaining new employment) and the Director's length of service. It is expected that any exit payments made to executives would not exceed one year's base salary and benefits which is consistent with their notice period of 12 months.

The rules of the Company's AIS also provide that: (i) in the event of a change in control, where the AIS is not carried forward under new ownership; or (ii) in the event an employee ceases employment for an agreed reason (such as ill health, agreed retirement or redundancy), then to the extent performance metrics have been satisfied at the date of the change, or cessation of employment (as appropriate), AIS amounts may be paid, pro-rated to reflect the number of days of employment in the relevant financial year.

Share awards under the Company's Deferred Bonus Plan do not normally vest for three years and are subject to forfeiture in the event of leaving employment (other than for reasons such as ill health, agreed retirement or redundancy where share awards would vest when employment ceases).

Additionally, all the Company's share plans contain provisions relating to a change of control. In general, outstanding awards and options would normally vest and become exercisable on a change of control, to the extent that any performance conditions have been satisfied at that time. If the Committee considers it appropriate given the circumstances of the change of control, time pro-rating may also apply.

The LTIP rules also provide in the event an employee ceases employment prior to the vesting of an award for an agreed reason (such as ill health, agreed retirement or redundancy) then, to the extent any performance metrics have been met at that time, the award would normally vest when employment ceases on a pro-rated basis to reflect the proportion of the vesting period during which the individual was employed.

Consideration of shareholder views

The Company is committed to ongoing dialogue with shareholders and welcomes feedback on Directors' remuneration. The Committee believes it has a responsible approach to Directors' pay and that its policy is appropriate and fit for purpose.

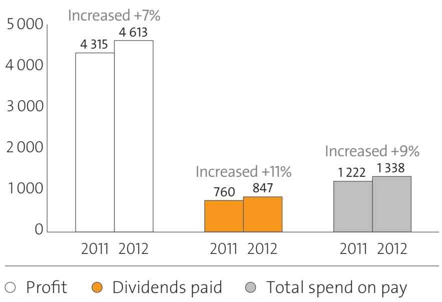
Generally, shareholders were comfortable with the remuneration policy in place, as evidenced by a 94% approval of the 2011 Directors' Remuneration report at the 2012 AGM. Further details are set out on page 75 of the **Implementation section**.

Relative importance of spend on pay

The graph below details BG Group's post-tax profits, dividends and total Group-wide expenditure on pay for all employees (this includes pension, variable pay and social security), as reported in the audited financial statements for the last two financial years.

This information has been presented to assist shareholders in assessing the importance of spend on pay, in accordance with the proposed draft legislation published by BIS in June 2012. In future years, the Company may change the information presented in order to comply with the finalised regulations and provide meaningful information to shareholders.

Relative importance of spend on pay ($m)



IMPLEMENTATION SECTION

The following section of this report provides details of the implementation of the policy for the year ended 31 December 2012. As all the current Directors are paid in Pounds Sterling, the Committee considers it appropriate that the figures disclosed in this report be presented in Pounds Sterling.

The Remuneration Committee met four times during the year ended 31 December 2012. Steve Allen, Company Secretary, attended meetings as Secretary to the Committee.

The following individuals attended meetings by invitation and provided advice to the Committee to enable it to make informed decisions:

- Sir Frank Chapman, former Chief Executive;
- Robert Booker, Executive Vice President, Human Resources; and
- Jane Crowther, General Manager Human Resources Function.

No individual was present when their own remuneration was being discussed. The Committee also meets without management present and receives information and independent executive remuneration advice from Kepler Associates*, an external consultancy appointed by the Committee. During 2012, Kepler Associates provided advice to the Committee on market trends, incentive schemes and other remuneration issues. Kepler Associates does not advise BG Group on any other issues.

Kepler Associates have provided independent advice to the Committee since December 2004. During 2012, the Committee ran a re-tender process and invited a number of leading remuneration consultants to tender. Following this exercise, the Committee decided to re-appoint Kepler Associates as its independent adviser.

Other external advisers may also provide support and advice in relation to executive remuneration to the Committee, as required. These advisers are appointed by management or the relevant Trustees, as appropriate. During the year, Towers Watson provided advice and market information on executive remuneration to the Committee. Towers Watson also provided general compensation, benefits information and general consultancy services to the Group, as well as actuarial advise to the Trustees of the BG Pension Scheme.

External adviser*	Total cost of advice to the Committee £'000	Basis for pay
Kepler Associates	120	Independent advice to the Committee
Towers Watson	30	Advice and market information on executive remuneration

*Kepler Associates and Towers Watson have given, and not withdrawn, their written consent to the issue of this document with the inclusion of the reference to their respective names in the form and content in which they appear. A copy of each consent letter is available for inspection at BG Group plc, 100 Thames Valley Park Drive, Reading, Berkshire RG6 1PT.

TOTAL REMUNERATION

EXECUTIVE DIRECTORS' REMUNERATION

Individual remuneration for the year to 31 December 2012

The table below reports a single figure for total remuneration for each individual Executive Director for 2012. This figure has been calculated as far as possible in accordance with the methodology set out in the draft regulations issued by BIS in June 2012.

	Fabio Barbosa[(a)(b)]		Sir Frank Chapman		Chris Finlayson[(b)]		Martin Houston	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Salary/fees[(c)]	**702**	517	**1 233**	1 192	**599**	74	**671**	553
Benefits and other emoluments[(d)(e)]	**31**	38	**25**	25	**30**	4	**52**	108
Bonus[(f)]	**–**	538	**–**	1 652	**–**	42	**–**	666
Pension[(g)]	**–**	–	**757**	477	**–**	–	**1 180**	137
Cash in lieu of pension	**210**	153	**–**	–	**179**	21	**–**	–
Long-Term Incentive Plan – annual award[(h)]	**–**	–	**3 895**	4 559	**–**	–	**1 365**	1 665
Long-Term Incentive Plan – on-hire award[(i)]	**–**	–	**–**	–	**302**	–	**–**	–
Total remuneration	**943**	**1 246**	**5 910**	**7 905**	**1 110**	**141**	**3 268**	**3 129**

(a) With effect from 9 September 2012, Den Jones, the Group Financial Controller, was appointed Fabio Barbosa's Alternate Director, while Mr Barbosa was granted leave of absence to undergo medical treatment. Fabio Barbosa continued to receive his normal remuneration while on leave of absence in line with the Company's sick leave policy. Den Jones received no additional remuneration in connection with his role as Fabio Barbosa's Alternate Director. In recognition of his temporary increased workload and team management responsibilities (but not his responsibilities as an Alternate Director) a temporary, non-pensionable additional allowance was paid.

(b) The remuneration reported is that received for qualifying services as an Executive Director. Fabio Barbosa and Chris Finlayson served as Executive Directors for only part of 2011. The figures reported for 2011 do not therefore reflect a 12-month period. As an Alternate Director, Den Jones did not undertake any qualifying services as an Executive Director, accordingly no remuneration is reported.

(c) The reported salary figures for the Executive Directors reflect any adjustments as a result of the operation of the flexible benefits plan including SIP Flex Shares Plan allocations (the maximum allocation was £2 998 in 2012 (£2 987 in 2011)). As mentioned in the introduction, Chris Finlayson's base salary increased to £975 000 per annum on 1 January 2013 on his appointment as Chief Executive.

(d) Taxable benefits include items such as company car, or cash in lieu of car where chosen (see below), driver, financial advice and medical insurance.

(e) Benefits and other emoluments include a cash allowance in lieu of a company car for Sir Frank Chapman, Fabio Barbosa and Chris Finlayson. In April 2012, Chris Finlayson changed from receiving a trade-down cash allowance in respect of his company car to a cash allowance in lieu of company car.

(f) Bonus. No bonus was awarded in respect of 2012. Further details are set out on page 68.

(g) Pensions. Sir Frank Chapman and Martin Houston are members of defined benefit plans. The amounts shown above in respect of the increase in the value of their accrued pension benefit during 2012 have been calculated on the proposed BIS calculation basis, using a Consumer Price Inflation figure of 2.7% (at 31 December 2012) and a multiplier of 20. This methodology is different from that prescribed by the occupational pension transfer value regulations. Therefore the amounts shown above differ from those in the pensions section on page 73.

(h) Long-Term Incentive Plan – annual award. This is the market value of the shares that vested on 7 September 2012. 44% of the original award vested as explained on page 70. The share price at the date of vesting was £12.695. This amount includes the value of dividend equivalent shares accrued during the vesting period which also vested on 7 September 2012.

(i) Long-Term Incentive Plan – on-hire award. This is the market value of the shares that vested on 1 August 2012. 74% of the original award vested as explained on page 70. The share price at the date of vesting was £12.635. This amount includes the value of dividend equivalent shares accrued during the vesting period which also vested on 1 August 2012.

EXECUTIVE DIRECTORS' BASE SALARIES

As set out on page 70 of our 2011 Remuneration report, the new positions of Chief Operating Officer and Managing Director, BG Advance were created on 15 November 2011. The base salaries of the individual Executive Directors were not reviewed at that stage, but instead their increased responsibilities were considered as part of the annual salary review process in March 2012. As indicated in the remuneration Policy section, when awarding base salary increases, the Committee also has regard to base salary increases operated elsewhere in the Group. The average annual salary increases that applied across the Group in April 2012 were 4.6%.

Executive Directors	**1 April 2012 £'000**	1 April 2011 £'000
Fabio Barbosa, Chief Financial Officer	**705**	680
Sir Frank Chapman, former Chief Executive	**1 240**	1 200
Chris Finlayson, Managing Director, BG Advance[(a)(b)]	**610**	555
Martin Houston, Chief Operating Officer[(a)]	**705**	555

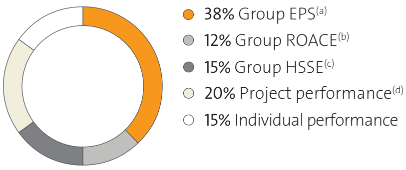
(a) The base salary increases awarded to Martin Houston and Chris Finlayson in April 2012 are reflective of their substantially increased responsibilities in their new roles.
(b) Chris Finlayson was appointed Chief Executive with effect from 1 January 2013.

BONUS – EXECUTIVE DIRECTORS' AWARDS UNDER THE ANNUAL INCENTIVE SCHEME

Annual Incentive Scheme

The performance measures which operated for the 2012 financial year are illustrated in the chart below.

Weighting of 2012 performance metrics for all Executive Directors



2012 AIS performance metrics

(a) Group EPS – Actual business performance results are adjusted to exclude the effects of changes in upstream prices, material exchange rates, contracted LNG prices and the Comgás regulatory current account. For a reconciliation between business performance and total results, see note 1, page 93 and note 9, page 103.

(b) Group ROACE – Actual post-tax business performance results (adjusted as in note (a) above but excluding net finance income/costs on net borrowings/funds) are expressed as a percentage of average Group capital employed. Average Group capital employed is calculated by averaging the positions at the start and end of the year. Group capital employed is the aggregate of total equity (excluding commodity financial instruments and associated deferred tax) and net borrowings/funds (in both cases adjusted to exclude the impact of changes in upstream prices and material exchange rates).

(c) Group HSSE – a balanced scorecard measures performance across a range of leading and lagging indicators.

(d) Project performance – assesses in-year performance on all Board-sanctioned projects, both operated and non-operated, against a range of indicators, including in-year cost and schedule performance relative to plan.

AIS amounts in excess of 100% of base salary are automatically deferred into Deferred Bonus Awards over BG Group shares (under the DBP). Shares subject to these awards are not normally released to the individual for three years and are subject to forfeiture in the event of leaving employment (other than for reasons such as ill health, agreed retirement or redundancy) and in such circumstances early release would normally apply. Under the DBP, the number of shares actually delivered may be reduced in circumstances where the Company becomes aware of misconduct or performance issues relevant to the bonus award year.

AIS amounts may also be voluntarily deferred into awards over BG Group shares under the VBDP, which operates in a number of BG Group's key locations. All employees participating in the AIS arrangements (including members of the GEC*) in these countries are eligible to participate in the VBDP. Eligible employees may choose to defer any percentage (between 1% and 100%) of their AIS award (up to 100% of base salary) into a Deferred Share Award over BG Group shares. This award may be exercised within five years of the date of grant. The balance of the AIS award (up to 100% of base salary) is paid in cash.

For the 2012 incentive year, the Committee followed the two-stage review process outlined in the Policy section. This involves for each metric a review of performance against targets and, secondly, consideration of the outcomes of the first stage in the context of the underlying performance of the business, including operational performance, strategy and business development activities, and performance against industry peers. For the 2012 incentive year, the AIS business performance outcomes were as follows (all measures are Group-wide):

Metric	Weighting %	Performance outcome	Threshold | Target | Stretch	Commentary
Group EPS	38	Between target and stretch		Normalised EPS above target outcome consistent with overall Group EPS outcome.
Group ROACE	12	Approaching stretch		Group ROACE towards stretch.
Project performance	20	In line with target		Good progress was made on projects in the year.
HSSE	15	Below target		Performance was assessed at below target in a number of areas.
Overall assessment		Between target and stretch		

As shown above, for the 2012 financial year the underlying performance of the business relative to the performance metrics set was solid. Accordingly, an AIS award would normally have been considered at a level between target and stretch.

However, in recognition of the Group's revision of its anticipated production growth for 2013 and the share price fall in the final quarter of the year, the Executive Directors all concluded that it would be inappropriate for them to receive an AIS award this year and asked the Committee that they not be considered for a bonus. The Committee agreed to accept these requests, and accordingly the Executive Directors were not considered for a bonus.

Executive Directors	Maximum bonus % of salary	Target bonus % of salary	Actual bonus received % of salary	Total 2012 bonus £'000
Fabio Barbosa	150	60	0	**0**
Sir Frank Chapman	200	100	0	**0**
Chris Finlayson	150	60	0	**0**
Martin Houston	150	60	0	**0**

*Eligible employees, other than members of the GEC, who participate in the VBDP are able to benefit from a 10% uplift on the proportion deferred, provided they hold their deferred award for at least three years.

The tables below set out the Executive Directors' interests in shares under the DBP and VBDP. The awards granted in 2012 relate to bonus deferrals made in respect of the 2011 AIS, and similarly for the earlier financial years.

EXECUTIVE DIRECTORS' INTERESTS IN SHARES UNDER THE BG GROUP DEFERRED BONUS PLAN

Executive Directors	Market price at date of award	Shares over which DBP awards held as at 1 Jan 2012	Shares over which DBP awards granted during the year	Shares vested during the year[a]	End of deferral period	Market value at date of vest	Value vested £'000	Normal vesting date[b]	Shares over which unvested DBP awards held as at 31 Dec 2012
Fabio Barbosa									
19 Mar 12	£15.380	–	2 290	–	18 Mar 15	–	–	19 Mar 15	2 290
Sir Frank Chapman									
10 Mar 09	£9.985	53 825	–	53 825	09 Mar 12	£15.04	810	10 Mar 12	–
23 Mar 10	£11.755	22 630	–	–	22 Mar 13	–	–	23 Mar 13	22 630
18 Mar 11	£14.990	36 290	–	–	17 Mar 14	–	–	18 Mar 14	36 290[c]
19 Mar 12	£15.380	–	29 581	–	18 Mar 15	–	–	19 Mar 15	29 581[c]
Martin Houston									
10 Mar 09	£9.985	10 567	–	10 567	09 Mar 12	£15.04	159	10 Mar 12	–
23 Mar 10	£11.755	3 729	–	–	22 Mar 13	–	–	23 Mar 13	3 729
18 Mar 11	£14.990	5 870	–	–	17 Mar 14	–	–	18 Mar 14	5 870
19 Mar 12	£15.380	–	7 264	–	18 Mar 15	–	–	19 Mar 15	7 264

(a) Dividend equivalent shares accrue on all DBP awards throughout the vesting period. 3 131 and 615 dividend equivalent shares accrued to Sir Frank Chapman and Martin Houston respectively in connection with the vesting of DBP awards in the year.
(b) Under normal circumstances, DBP awards will not vest and shares will not be released until after the end of the three-year deferral period that began on the award date. The release date of the shares is conditional upon continued employment until the end of the deferral period.
(c) Subject to no issues being identified in relation to conduct or performance for the relevant bonus years (2010 and 2011), these awards will vest in full on cessation of Sir Frank Chapman's employment in June 2013.

EXECUTIVE DIRECTORS' INTERESTS IN SHARES UNDER THE BG GROUP VOLUNTARY BONUS DEFERRAL PLAN

Executive Directors	Market price at date of award	Shares over which awards held as at 1 Jan 2012	Shares over which awards granted and vested during the year[a][b]	Vesting date[a]	Shares over which vested unexercised awards held as at 31 Dec 2012	Earliest normal exercise date	Expiry date
Fabio Barbosa							
19 Mar 12	£15.38	–	44 502	Jun 12	44 502	Jun 12	Mar 17
Chris Finlayson							
18 Mar 11	£14.99	17 344	–	Jun 11	17 344	Jun 11	Mar 16
19 Mar 12	£15.38	–	22 120	Jun 12	22 120	Jun 12	Mar 17
Martin Houston							
18 Mar 11	£14.99	35 690	–	Jun 11	35 690	Jun 11	Mar 16

(a) All VBDP awards granted to UK employees were granted in the form of nil-cost options. Under normal circumstances, the VBDP awards vest three months after the date of grant and may be exercised at any time up to the fifth anniversary of the date of grant.
(b) Dividend equivalent shares accrue on all VBDP awards between grant and exercise. This is consistent with awards made to all employees participating in the VBDP.

BG GROUP LONG-TERM INCENTIVE PLAN 2008

PERFORMANCE SHARE AWARDS

Performance Share Awards are typically granted annually in early September. Awards will normally vest three years after the date of grant. The vesting is conditional on:

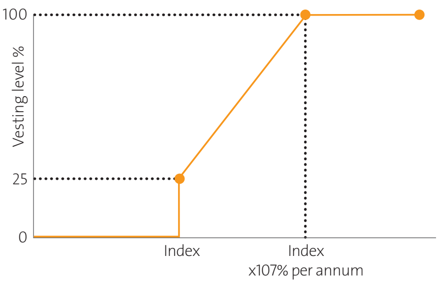
- continued employment;
- the individual employee's performance not having fallen significantly below that expected since the date of grant; and
- the Company's total shareholder return (TSR)* performance over a three-year performance period. This is detailed further below.

There is a further overriding condition that the Committee must be satisfied that the underlying performance of the Group justifies the level of vesting.

TSR performance for the Performance Share Awards is measured over a three-year performance period commencing on the first day of the calendar month in which the award is made. There is no retest provision. As awards are typically granted in September, the three-year performance period usually runs from 1 September within a financial year to 31 August within the financial year ending three years later.

The level of Performance Share Awards vesting is related to the Company's TSR performance over this period relative to a weighted index of a selection of oil and gas industry peers. The constituents of the index are reviewed annually to ensure the most comparable peer group companies are used.

Performance Share Award
TSR performance and vesting levels (%)



The vesting levels of the Performance Share Awards are illustrated in the graph to the left and the table below.

BG Group's performance relative to index TSR performance	Level of vesting (%)
Less than index TSR performance	0%
Meets index TSR performance	25%
Exceeds index TSR performance by 7% pa or more	100%
Exceeds index TSR performance but by less than 7% pa	Linear sliding scale (between 25% and 100% vesting)

The TSR performance calculation is multiplicative; that is, if the index grows from 100% to 110%, then BG Group is required to move from 100% to 134.75% (i.e. 110% x $107\%^3$) over three years to achieve maximum vesting.

*TSR is defined as the return on investment obtained from holding a company's shares over a period. It includes dividends paid, the change in the capital value of the shares and other payments to or by shareholders within the period. TSR is calculated on a common currency basis to ensure that international comparisons are fair. The Committee believes that TSR relative to a weighted peer group index is an appropriate measure of relative performance.

The constituents of the index are summarised below:

Company(a)	2012	2011	2010	2009
Anadarko Petroleum Corp.	√	√	√	√
Apache Corporation	√	√	√	√
BP plc	√	√	√	√
Canadian Natural Resources Limited	√	√		
Cenovus Energy Inc	√	√		
Chevron Corporation	√	√	√	√
ConocoPhillips	√	√	√	√
Devon Energy Corporation	√	√	√	√
Encana Corporation		√		
Eni S.p.A.	√	√	√	√
EOG Resources Inc	√	√	√	√
Exxon Mobil Corporation	√	√	√	√
Hess Corporation		√	√	√
Marathon Oil	√		√	√
Occidental Petroleum Corp.	√	√		
Repsol S.A.	√	√	√	√
Royal Dutch Shell plc	√	√	√	√
Statoil ASA	√	√	√	√
Suncor Energy Inc	√	√	√	√
Talisman Energy Inc			√	√
Total S.A.	√	√	√	√
Tullow Oil plc	√			
Woodside Petroleum Ltd.	√	√	√	√

(a) The potential constituents of the index are reviewed annually to ensure they continue to be appropriate.

The performance period for the 2009 Performance Share Awards ended on 31 August 2012. BG Group's TSR performance relative to the weighted index was measured by the independent TSR monitoring service of Alithos Limited and reviewed by Kepler Associates. This analysis indicated that BG Group had outperformed the index by 1.76% per annum on average, and as a result 44% of the shares awarded should vest. The Committee considered this together with the underlying financial performance of the Group and the individual performance of the executives, and concluded 44% of the shares awarded to executives would vest. Accordingly the awards vested on 7 September 2012.

During the year, the performance period ended for an element of an on-hire Performance Share Award granted in September 2010 to Chris Finlayson in connection with his recruitment. A maximum of 31 666 shares subject to this award were available for vesting. The level of vesting was dependent on BG Group's TSR performance relative to the 2010 weighted index of industry peers over the two-year period to 31 July 2012. This was measured by the independent TSR monitoring service of Alithos Limited and indicated that BG Group had outperformed the index by 4.6% per annum on average. Accordingly, 74% (23 534 shares) of the shares awarded vested on 1 August 2012.

PERFORMANCE SHARE AWARDS VESTING IN THE FINANCIAL YEAR

	2012			2011		
Executive Directors	% vesting	Value(a) '000	Number of shares(b)	% vesting	Value £'000	Number of shares
Fabio Barbosa(d)	**–**	**–**	**–**	–	–	–
Sir Frank Chapman	**44%**	**3 764**	**296 475**	62%	4 413	339 188
Chris Finlayson(d)	**74%**	**297(c)**	**23 534**	–	–	–
Martin Houston	**44%**	**1 319**	**103 890**	62%	1 611	123 837

(a) All Performance Shares Awards vesting in the year were granted in the form of nil-cost options. Once vested the options are exercisable until the seventh anniversary of the vesting date, but will be automatically exercised on an employee leaving the Company if not already exercised.
(b) Dividend equivalent shares accrued on all Performance Share Awards throughout the vesting period. The awards vesting were increased by 10 322 shares (£131 000); 3 617 shares (£46 000); and 397 shares (£5 000) to Sir Frank Chapman, Martin Houston and Chris Finlayson respectively to reflect this.
(c) This represents the vesting in the year of an element of an on-hire Performance Share Award made in September 2010 to Chris Finlayson in connection with his recruitment as described above.
(d) For Fabio Barbosa and Chris Finlayson, the figures shown for 2011 are from their date of appointment to the Board, being 31 March 2011 and 15 November 2011 respectively.

In September 2012, the Executive Directors were granted Performance Share Awards under the LTIP. The three-year performance period over which TSR performance will be measured began on 1 September 2012. The awards will not vest until 4 September 2015. For 2012, the EPV of a Performance Share Award was calculated as 44%, and of a Group Share Award as 86%, of the market value of the underlying share. LTIP awards granted to an individual in a financial year cannot exceed a total EPV of 300% of base salary (other than in exceptional circumstances such as recruitment). The maximum EPV of LTIP awards granted to an individual in 2012 (other than in exceptional circumstances such as recruitment) was 264%.

BG GROUP LONG-TERM INCENTIVE PLAN 2008 – AWARDS GRANTED ON 4 SEPTEMBER 2012

Executive Directors	Type of award	Face value of shares awarded as a % of base salary	EPV of awards as a % of base salary	Face value (at date of grant) £'000	% of face value that would vest at threshold
Fabio Barbosa	Performance Share Award	455	200	3 141	25
Sir Frank Chapman	Performance Share Award	600	264	7 302	25
Chris Finlayson	Performance Share Award	455	200	2 718	25
Martin Houston	Performance Share Award	455	200	3 141	25

EXECUTIVE DIRECTORS' INTERESTS IN SHARES UNDER THE BG GROUP LONG-TERM INCENTIVE PLAN 2008

Executive Directors	Market price at date of award	Shares over which unvested awards held as at 1 Jan 2012	Shares over which awards granted during the year[a]	Shares vested during the year[b]	End of performance period	Market value at date of vest	Value vested £'000	Number forfeited	Vesting date	Vested awards exercised during the year	Shares over which unvested awards held as at 31 Dec 2012
Fabio Barbosa											
18 Mar 11	£14.99	189 014	–	–	28 Feb 14	–	–	–	18 Mar 14	–	189 014
02 Sep 11	£13.01	216 884	–	–	31 Aug 14	–	–	–	02 Sep 14	–	216 884
04 Sep 12	£12.71	–	247 158	–	31 Aug 15	–	–	–	04 Sep 15	–	247 158
Total											**653 056**
Sir Frank Chapman											
07 Sep 09	£10.19	676 266	–	296 475	31 Aug 12	£12.695	3 764	379 791	07 Sep 12	–	–
07 Sep 10	£10.66	644 526	–	–	31 Aug 13	–	–	–	07 Sep 13	–	644 526[c]
02 Sep 11	£13.01	564 263	–	–	31 Aug 14	–	–	–	02 Sep 14	–	564 263[c]
04 Sep 12	£12.71	–	574 517	–	31 Aug 15	–	–	–	04 Sep 15	–	574 517[c]
Total											**1 783 306**
Chris Finlayson											
07 Sep 10	£10.66	236 328	–	–	31 Aug 13	–	–	–	07 Sep 13	–	236 328
07 Sep 10[d]	£10.66	63 334	–	23 534	31 July 12	£12.635	297	8 132	01 Aug 12	–	31 668
02 Sep 11	£13.01	202 303	–	–	31 Aug 14	–	–	–	02 Sep 14	–	202 303
04 Sep 12	£12.71	–	213 853	–	31 Aug 15	–	–	–	04 Sep 15	–	213 853
Total											**684 152**
Martin Houston											
07 Sep 09[e]	£10.19	236 977	–	103 890	31 Aug 12	£12.695	1 319	133 087	07 Sep 12	103 890	–
07 Sep 10	£10.66	236 328	–	–	31 Aug 13	–	–	–	07 Sep 13	–	236 328
02 Sep 11	£13.01	202 303	–	–	31 Aug 14	–	–	–	02 Sep 14	–	202 303
04 Sep 12	£12.71	–	247 158	–	31 Aug 15	–	–	–	04 Sep 15	–	247 158
Total											**685 789**

(a) Executive Directors received only grants of Performance Share Awards. All Performance Share Awards granted to UK employees from September 2009 were granted in the form of nil-cost options. Under normal circumstances, the awards will not vest and the options will not become exercisable until after the end of the three-year vesting period which began on the date of grant of the awards. Once vested the options are exercisable until the seventh anniversary of the vesting date but will be automatically exercised on an employee leaving the Company if not already exercised. The level of vesting is dependent on the Company's TSR performance over a three-year period relative to a weighted index of a selection of industry peers. The performance conditions for the awards from 2009 onwards are set out on pages 69 and 70.

(b) Dividend equivalent shares accrue on all Performance Share Awards throughout the vesting period; 10 322, 3 617 and 397 dividend equivalent shares accrued to Sir Frank Chapman, Martin Houston and Chris Finlayson respectively, in connection with the vesting of the Performance Share Awards during the year.

(c) Subject to the satisfaction of performance conditions, these awards will vest on a time pro-rated basis on the cessation of Sir Frank Chapman's employment in June 2013.

(d) The awards granted to Chris Finlayson in September 2010 include an award made in connection with his recruitment in July 2010. This award vests in three equal tranches over the period to 1 August 2013, subject to BG Group's TSR performance. At 31 December 2012, 31 668 shares subject to this award were unvested.

(e) The vested nil-cost options relating to Martin Houston's 7 September 2009 award were exercised in full on his behalf on 7 September 2012 for US tax reasons. The share price on the date of exercise was £12.695.

EXECUTIVE DIRECTORS' INTERESTS IN SHARES UNDER THE BG GROUP COMPANY SHARE OPTION SCHEME

Executive Directors	Options as at 1 Jan 2012	Exercised in year	Granted in year	Lapsed in year	Options as at 31 Dec 2012	Exercise price	Earliest normal exercise date	Expiry date
Sir Frank Chapman	612 711	–	–	–	**612 711**	£4.9942	Sep 08	Sep 15
	521 868	–	–	–	**521 868**	£6.8983	Sep 09	Sep 16
	375 403	–	–	–	**375 403**	£7.9200	Sep 10	Sep 17

EXECUTIVE DIRECTORS' INTERESTS IN SHARES UNDER THE BG GROUP SHARESAVE PLAN 2008

Executive Directors	Options as at 1 Jan 2012	Exercised in year	Granted in year	Lapsed in year	Options as at 31 Dec 2012	Exercise price	Earliest normal exercise date	Expiry date
Fabio Barbosa	810	–	–	–	**810**	£11.10	Feb 15	Aug 15
Sir Frank Chapman	1 253	1 253[a]	–	–	**–**	–	–	–
	810	–	–	–	**810**	£11.10	Feb 15	Aug 15
Chris Finlayson	876	–	–	–	**876**	£10.27	Feb 14	Aug 14
Martin Houston	1 051	–	–	–	**1 051[b]**	£8.63	Feb 13	Aug 13
	–	–	1 029	–	**1 029**	£8.74	Feb 16	Aug 16

(a) The market price on 11 June 2012, the date of exercise, was £12.585. The total gain on exercise was £6 171. This option was exercisable from 1 February 2012 to 31 July 2012 at an exercise price of £7.66.

(b) Exercised on 14 February 2013. The market price on the day of exercise was £11.375. The total gain on exercise was £2 885.

All-employee share plans

In order to encourage share ownership, the Company currently provides two all-employee UK HMRC approved share plans for its UK employees.

Share Incentive Plan

Two elements of the SIP operated during 2012: the Partnership Shares Plan and the Flex Shares Plan.

(a) Partnership shares

Eligible employees are offered the opportunity to buy Company shares from pre-tax earnings as part of a regular share purchase plan. Shares are currently purchased every six months using employees' accumulated deductions and are placed in trust.

(b) Flex shares

Flex share allocations were made to all eligible employees as part of the UK flexible benefits plan. Flex share allocations are awarded up to a maximum value of £3 000 (statutory limit) to all eligible employees in the UK who accept their allocation.

Sharesave Plan

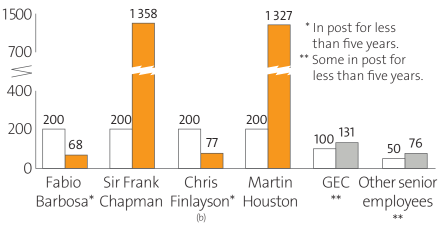
From 2008, grants have been made under the Sharesave Plan 2008. The plan enables eligible employees to acquire Company shares with the proceeds of a monthly savings contract. The contract period is three years.

Shareholding guidelines

The Committee has adopted guidelines for Executive Directors, GEC members and certain other senior employees to encourage substantial long-term share ownership. These specify that, over a period of five years from the date of appointment, Executive Directors should build up, and then retain, a holding of shares with a value equivalent to 200% of base salary. The required holding for other members of the GEC is 100% of base salary and for certain other senior employees is 50% of base salary. The guidelines require that, in relation to Performance Share and Group Share Awards under the LTIP and DBP awards, vested shares (net of tax) should be retained by the individual until the required shareholding level is reached.

The chart below sets out the percentage of base salary held in shares by each of the Executive Directors as compared with the guidelines. The chart also shows for other members of the GEC and senior employees the average actual shareholding as a percentage of base salary.

Shareholdings[(a)] at 31 December 2012 against guidelines (% of base salary)



○ Shareholding guideline
● Actual holding
● Average holding

(a) Under the shareholding guidelines, vested nil-cost option awards under the LTIP, VBDP and DBP are included. They are included net of the withholding for tax and social security which would have been made had they been exercised at the year end. For UK employees, the withholding applied is the current UK maximum of 52%.
(b) Chris Finlayson's compliance with the guidelines at 31 December 2012 is measured using his base salary at that point, £610 000.

EXECUTIVE DIRECTORS' INTERESTS IN SHARES AT 31 DECEMBER 2012

The table below shows the Executive Directors' interests in shares, which include all shares held beneficially together with those interests in shares that have vested, and are no longer subject to deferral or performance conditions and may be included as an interest in shares under BG Group's shareholding guidelines*.

Executive Directors	Base salary[(a)] £'000	Value[(b)*] £'000
Fabio Barbosa	705	480
Sir Frank Chapman	1 240	16 845
Chris Finlayson	610	473
Martin Houston	705	9 356

* Under the shareholding guidelines, vested nil-cost option awards under the LTIP, VBDP and DBP are included. They are included net of the withholding for tax and social security which would have been made had they been exercised at the year end. For UK employees, the withholding applied is the current UK maximum of 52%.
(a) Base salary is annual salary effective from 1 April 2012.
(b) The value of shareholdings is based on the closing price of a BG Group ordinary share on 31 December 2012.

SUMMARY OF EXECUTIVE DIRECTORS' OVERALL INTERESTS IN BG GROUP SHARES

Executive Directors	Type	Outright or vested	Unvested and subject to deferral	Unvested and subject to performance conditions	Total as at 31 Dec 2012
Fabio Barbosa	Shares	25 808	–	–	25 808
	Market value options[(a)(b)]	–	810	–	810
	Nil-cost options[(a)(c)]	45 059	2 290	653 056	700 405
Sir Frank Chapman	Shares	1 516 447	22 630	–	1 539 077
	Market value options[(a)(b)]	1 509 982	810	–	1 510 792
	Nil-cost options[(a)(c)]	306 797	65 871	1 783 306	2 155 974
Chris Finlayson	Shares	646	–	–	646
	Market value options[(a)(b)]	–	876	–	876
	Nil-cost options[(a)(c)]	95 904	–	684 152	780 056
Martin Houston	Shares	906 477	3 729	–	910 206
	Market value options[(a)(b)]	–	2 080	–	2 080
	Nil-cost options[(a)(c)]	36 511	13 134	685 789	735 434

(a) The Executive Directors' interests in shares under awards made in the form of nil-cost options and market value options are stated before the operation of any applicable withholdings for tax and social security, which would typically arise when a vested award is exercised. The current maximum UK withholding is 52%. In the case of market value options, it is also stated before the sale of any shares to fund the exercise price.
(b) Market value options include options granted under the Company Share Option Scheme up to September 2007 and also include sharesave options outstanding and not yet matured as at 31 December 2012. The exercise price of these options was set at 80% of the market value of a share at the invitation date.
(c) Awards in the form of nil-cost options are made to eligible UK employees under the LTIP, DBP and VBDP

The following table shows the Executive Directors' interest in ordinary shares, as required by the Listing Rules.

	Interests in ordinary shares[(a)]	
	As at 1 Jan 2012	As at 31 Dec 2012
Fabio Barbosa	25 481	25 808
Sir Frank Chapman	1 827 730	1 516 447
Chris Finlayson	319	646
Martin Houston	843 880	906 477

(a) Interests in ordinary shares includes ordinary shares acquired pursuant to the BG Group SIP.

On 14 February 2013, Martin Houston acquired a further 1 051 shares on the exercise of an option granted to him under the BG Group Sharesave Plan.

As at 20 March 2013, the Executive Directors' interests in the ordinary share capital of the Company represent less than 1% of the issued ordinary share capital of the Company.

The closing price of an ordinary share on 31 December 2012 was £10.12. The range during the year was from £15.47 (high) to £10.00 (low). All market price figures are derived from the Daily Official List of the London Stock Exchange.

Pensions

Fabio Barbosa and Chris Finlayson do not accrue any entitlement to post-retirement benefits and receive a cash allowance in lieu of pension contributions calculated at a rate of 30% of base salary. The amounts paid in 2012 are set out in the remuneration table on page 67.

Sir Frank Chapman and Martin Houston were members of the BG Pension Scheme (BGPS) and the BG Supplementary Benefits Scheme (BGSBS) during the year. These schemes provide pensions on a defined benefit basis. The BGPS is a funded, UK-registered pension scheme and the BGSBS is an unfunded, unregistered pension scheme. Sir Frank Chapman and Martin Houston elected 'enhanced protection' with effect from 6 April 2006, which limits the benefits provided by the BGPS.

The basis on which post-retirement benefits are calculated for Sir Frank Chapman and Martin Houston has not changed during the year. Sir Frank Chapman receives an accrual of benefits designed to target a pension of two-thirds of his final 12 months' salary on retirement from BG Group at age 60. Martin Houston accrues pension at the rate of 1/60 of his final 12 months' salary for each year of pensionable service. Pensions in payment are normally increased in line with retail price inflation. An adult dependant's pension is payable on death in service, equal to two-thirds of that payable to the BGPS member including potential service. On death in retirement, an adult dependant's pension is payable equal to two-thirds of the member's pension prior to exchanging any of it for a cash lump sum.

Like other members of the BGPS, neither Sir Frank Chapman nor Martin Houston can normally claim an immediate pension before age 60 on a non-actuarially reduced basis unless they have left service as a result of redundancy when over the age of 50 or in the event of incapacity. In addition, like other members of the BGPS that have attained age 55 and completed 10 years' service, they may request an unreduced pension but this is only payable where the Company expressly agrees to payment on this basis.

A provision has been made in the Company's accounts in respect of the obligations for unfunded post-retirement benefits.

As set out in the Policy section on page 63, subject to the outcome of statutory employee consultation, the Company plans to close the BGPS and BGSBS to future accrual with effect from 1 December 2013.

EXECUTIVE DIRECTORS' PENSION PROVISIONS

Executive Directors	Director's contributions in year to 31 Dec 2012[a] £'000	Age at 31 Dec 2012	Increase in accrued annual pension in year to 31 Dec 2012 £'000 pa[b]	Increase in accrued annual pension in year to 31 Dec 2012 £'000 pa[c]	Total accrued annual pension at 31 Dec 2012 £'000 pa	Pension age
Sir Frank Chapman	–	59	58	16	805	60
Martin Houston	–	55	66	52	325	60

Executive Directors	Transfer value of accrued pension as at 31 Dec 2011[d] £'000	Transfer value of accrued pension as at 31 Dec 2012[d] £'000	Increase in transfer value over the year less Director's own contributions £'000
Sir Frank Chapman	19 386	22 242	2 856
Martin Houston	5 445	7 293	1 848

(a) The Directors' pension contributions were made via a 'salary sacrifice' system under which the Company made contributions on behalf of each Director and reduced their salary by a corresponding amount.
(b) Actual increase.
(c) Increase net of price inflation of 5.6%.
(d) The transfer values shown at the end of 2011 and 2012 represent the value of each Executive Director's accrued pension based on total service completed to the relevant date. The accrued pensions are the amounts to which the Executive Directors would have been entitled had they left service at the relevant date. The transfer values are calculated in accordance with the requirements of The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008. The increases in transfer values in the year differ from those reported in the Executive Directors' remuneration table on page 67, which have been calculated in accordance with the proposed BIS calculation basis. This is because of the different methods used.

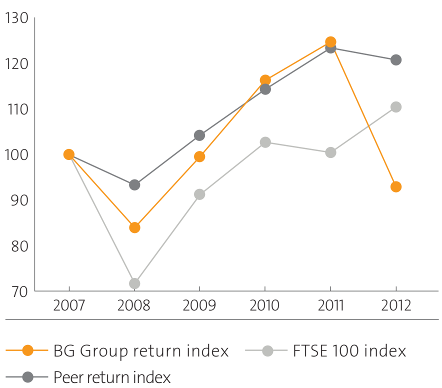
Historical TSR performance

The graph below shows the growth in value of a hypothetical £100 holding invested over five years in each of BG Group shares, the FTSE 100 index and the 2012 LTIP index of oil and gas industry peers.

The FTSE 100 was chosen as this is a recognised broad equity market index of which BG Group is a member.

(The calculations are in accordance with the Large & Medium-Sized Companies and Groups (Accounts & Reports) Regulations 2008.)

Historical TSR performance



For the year ended 31 December.

Dilution

The Association of British Insurers has published guidelines relating to the disclosure of commitments to issue new shares or re-issue treasury shares under a company's share-based schemes. In the event that all options and awards outstanding as at 31 December 2012 under BG Group's LTIP vest (under which awards are planned to be satisfied by the re-issue of treasury shares or by the issue of new shares), and all Company Share Option Scheme (CSOS) options (under which options are currently satisfied by the issue of new shares) are exercised, the resulting issue of new shares and re-issue of treasury shares would amount to 0.84% of the issued ordinary share capital (excluding treasury shares) at that date.

The exercise of options under BG Group's Sharesave Plan 2008 is satisfied by the issue of new shares. If the total number of options outstanding under these plans as at 31 December 2012 had been exercised on that date, the resultant issue of shares would have represented 0.05% of the total ordinary share capital (excluding treasury shares) then in issue.

Partnership and Flex Share awards made under the SIP during 2012 were satisfied by the re-issue of treasury shares. These awards represented 0.01% of the issued ordinary share capital (excluding treasury shares) as at 31 December 2012.

The Company's intention is to continue to satisfy the future exercise of options and vesting of awards under the above share plans by the issue of new shares and re-issue of treasury shares as described above. As of 31 December 2012, the BG Group Employee Share Trust held 3 071 566 shares and the BG Group New Employee Share Trust held 414 shares.

External appointments

To broaden the experience of Executive Directors, they are able to accept one external appointment as a non-executive director of another company provided that permission is sought from the Board in advance. Any external appointment must not conflict with the Director's duties and commitments to BG Group. Any fees from such appointments may be retained by the individual Executive Director. The former Chief Executive, Sir Frank Chapman, was appointed as a non-executive director of Rolls-Royce Holdings plc on 10 November 2011 and he receives an annual fee of £75 000 in connection with this appointment. None of the other Executive Directors currently holds any non-executive director appointment.

NON-EXECUTIVE DIRECTORS

The Board aims to recruit Non-Executive Directors of a high calibre, with broad commercial, international or other relevant experience. Non-Executive Directors are appointed by the Board on the recommendation of the Nominations Committee. Their appointment is for an initial term of three years, subject to election by shareholders at the first AGM following their appointment and annual re-election thereafter. The terms of engagement of the Non-Executive Directors are set out in a letter of appointment.

The regular biennial review of non-executive fees took place during the year. The review involves consideration of a number of factors, including market movements, time commitment and competition for high-quality non-executive directors. The results of this review, which were effective from 1 June 2012 are summarised below.

	Annual fee with effect from 1 June 2012	Annual fee to 31 May 2012
Basic fee	£82 000	£77 500
Committee membership fee (excluding Nominations Committee)	£8 000	£5 000
Chairman – Audit Committee	£28 000	£25 000
Chairman – Remuneration Committee	£25 000	£20 000
Senior Independent Director	£30 000	£25 000

No change was made to the Chairmanship fee for the Sustainability Committee which remains at £20 000 per annum. Fees will next be reviewed in 2014.

Non-Executive Directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes.

To facilitate the alignment of the interests of the Non-Executive Directors with those of shareholders, the Group has put in place a Non-Executive Directors' share purchase programme through which Non-Executive Directors may elect to invest a proportion of their fees, net of tax and on a regular basis, to acquire BG Group shares on the open market. The first deductions were made under this programme in January 2010.

Chairman

Andrew Gould was appointed Chairman with effect from the conclusion of the AGM on 16 May 2012, following the retirement of Sir Robert Wilson at the conclusion of that AGM. Andrew Gould was appointed for a three-year term from 16 May 2012. His fee is £725 000 per annum and will be reviewed annually. His appointment is subject to annual re-election by shareholders at the AGM and there is no notice period and no provision for payment in the event of early termination.

Chairman and Non-Executive Directors' letters of appointment	Initial appoint-ment	Date of appointment or re-appoint-ment	Expiry of term
Andrew Gould	1 Jun 11	16 May 12	May 15
Peter Backhouse	19 Jul 00	12 May 11	May 14
Vivienne Cox	8 Feb 12	8 Feb 12	Feb 15
Baroness Hogg	27 Jan 05	12 May 11	May 14
Dr John Hood	26 Apr 07	12 May 11	May 14
Caio Koch-Weser	1 Nov 10	1 Nov 10	Nov 13
Lim Haw-Kuang	4 Mar 13	4 Mar 13	Mar 16
Sir David Manning	1 Jul 08	12 May 11	May 14
Mark Seligman	3 Dec 09	3 Dec 12	Dec 15
Patrick Thomas	15 Dec 10	15 Dec 10	Dec 13
Philippe Varin(a)	2 May 06	17 May 12	May 15

(a) Philippe Varin retired as a Non-Executive Director on 11 February 2013.

The Non-Executive Directors' letters of appointment do not contain any notice period or provision for compensation in the event of early termination of their appointment.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Individual remuneration for the year to 31 December

	Salary/fees		Taxable benefits		Total	
	2012	2011	**2012**	2011	**2012**	2011
Andrew Gould(a)(b)(c)	**488 663**	50 042	**1 548**	286	**490 211**	50 328
Peter Backhouse(a)(b)	**86 875**	85 888	**–**	286	**86 875**	86 174
Vivienne Cox(b)(d)	**82 858**	–	**–**	–	**82 858**	–
Baroness Hogg(a)(b)	**114 778**	122 667	**–**	286	**114 778**	122 953
Dr John Hood(a)(b)	**116 542**	107 500	**–**	286	**116 542**	107 786
Caio Koch-Weser(a)(b)	**92 250**	82 500	**–**	286	**92 250**	82 786
Sir David Manning(a)(b)	**100 125**	87 333	**–**	286	**100 125**	87 619
Mark Seligman(a)(b)	**106 875**	105 889	**–**	286	**106 875**	106 175
Patrick Thomas(a)(b)	**93 625**	83 650	**–**	286	**93 625**	83 936
Philippe Varin(a)(b)(d)(e)	**93 625**	87 500	**–**	286	**93 625**	87 786

	Salary/fees		Taxable benefits		Total	
Former Chairman	**2012**	2011	**2012**	2011	**2012**	2011
Sir Robert Wilson(a) (retired 16 May 2012)	**272 850**	725 000	**934**	2 544	**273 784**	727 544

(a) Taxable benefits include items such as gifts and a pool driver.
(b) Each Non-Executive Director was paid a fee of £77 500 per annum to 31 May 2012, and £82 000 per annum from 1 June 2012. Fees are also paid for committee membership and chairmanship as outlined in the table outlining the results of the biennial fee review.
(c) As set out above, Andrew Gould was appointed Chairman with effect from 16 May 2012. The fees reported above reflect his annual fee as Chairman of £725 000 from that date; and prior to that date the Non-Executive Director fees he received are described in footnote (b).
(d) Vivienne Cox was appointed as a Non-Executive Director on 8 February 2012.
(e) Philippe Varin retired as a Non-Executive Director on 11 February 2013.

NON-EXECUTIVE DIRECTORS' INTERESTS IN ORDINARY SHARES

The Non-Executive Directors' interests in ordinary shares of the Company at the start and at the end of the financial year were as follows:

	Interests in ordinary shares	
	As at 1 Jan 2012[a]	As at 31 Dec 2012
Andrew Gould	–	**30 000**
Peter Backhouse	27 500	**27 500**
Vivienne Cox[a]	–	**–**
Baroness Hogg	12 439	**14 248**
Dr John Hood	7 295	**8 795**
Caio Koch-Weser	1 900	**3 600**
Sir David Manning	1 847	**2 276**
Mark Seligman	12 448	**14 965**
Patrick Thomas	–	**–**
Philippe Varin[b]	42 500	**42 500**

(a) Vivienne Cox was appointed as a Non-Executive Director on 8 February 2012.
(b) Philippe Varin retired as a Non-Executive Director on 11 February 2013.

Andrew Gould purchased 35 000 ordinary shares on 12 February 2013 at a price of £11.20 per share. As a result, Mr Gould's interest in the ordinary share capital of BG Group is 65 000 shares. There have been no other changes in the Non-Executive Directors' interests in shares between 31 December 2012 and 20 March 2013.

Lim Haw-Kuang was appointed as a Non-Executive Director on 4 March 2013 and, as at the date of this report, has no interests in ordinary shares of the Company.

Shareholder voting

BG Group remained committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the Group seeks to understand the reasons for any such vote, and will detail here any actions in response to it.

The following table sets out actual voting in respect of our previous remuneration report:

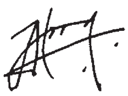
Number of votes	For	Against	Abstain[a]
2011 Directors' Remuneration report (2012 AGM)	2 098m (94%)	135m (6%)	46m

(a) A vote abstained is not a vote in law and is not counted in the calculation of the proportion of votes 'For' or 'Against' a resolution.

Audit notes

In accordance with Section 421 of the Companies Act 2006 and the Regulations, the following sections of the report have been audited: Executive Directors' remuneration; Executive Directors' interests in shares under the BG Group Deferred Bonus Plan; Executive Directors' interests in shares under the BG Group Long-Term Incentive Plan 2008; Executive Directors' interests in shares under the BG Group Sharesave Plan 2008; Executive Directors' interests in shares under the BG Group Voluntary Bonus Deferral Plan; Executive Directors' interests in shares under the BG Group Company Share Option Scheme; Executive Directors' interests in ordinary shares; Non-Executive Directors' remuneration; Non-Executive Directors' interests in ordinary shares; and the table and notes in the Pensions section of the report. The remaining sections are not subject to audit.

By order of the Board



Dr John Hood
Chairman of the Remuneration Committee

20 March 2013

Registered office:
100 Thames Valley Park Drive
Reading, Berkshire RG6 1PT
Registered in England & Wales No. 3690065

OTHER DISCLOSURES

THIS SECTION CONTAINS ADDITIONAL INFORMATION WHICH THE DIRECTORS ARE REQUIRED BY LAW AND REGULATION TO INCLUDE WITHIN THE ANNUAL REPORT AND ACCOUNTS.

There are a number of legal and regulatory requirements with which BG Group must comply, such as the Companies Act 2006 (the Act), the Listing Rules and the Disclosure and Transparency Rules, which are addressed in this section.

Shareholders

Incorporation and constitution

BG Group plc is domiciled in England and incorporated in England & Wales under Company Number 3690065.

BG Group plc's Articles of Association (the Articles) may only be amended by a special resolution at a general meeting of shareholders. The Articles are available on the Company's website at **www.bg-group.com**

Substantial shareholders

As at 31 December 2012, the following voting interests in the ordinary share capital of the Company, disclosable under Disclosure and Transparency Rule 5, had been notified to the Directors:

BlackRock Inc and/or its subsidiaries	259 128 305	7.62%
Legal and General Group plc and/or its subsidiaries	119 909 474	3.52%
Norges Bank	152 363 377	4.48%

No change in voting interests in the ordinary share capital of the Company, disclosable under the Disclosure and Transparency Rules, have been notified to the Directors between 31 December 2012 and 20 March 2013.

Share capital

The Company's share capital consists of ordinary shares with a nominal value of 10p each. For information and details of shares issued during the year, see note 23, page 120.

Voting rights

When a shareholder is entitled to attend a general meeting and vote, where there is a poll, subject to any special rights or restrictions attaching to any class of shares, if they are entitled to be present and to vote, they have one vote for every share that they hold.

Unless the Articles say otherwise, the only people who can attend or vote at general meetings, or exercise any other right conferred by being a shareholder in relation to general meetings, are shareholders who have paid the Company all calls, and all other sums, relating to their shares that are due at the time of the meeting. This applies both to attending a meeting personally and to attending by proxy or corporate representative.

Deadlines for exercising voting rights

To decide who can attend or vote at a general meeting and how many votes can be cast, the notice of the meeting must give a time by which people must be entered on the Register in order to be entitled to attend or vote at a meeting. This time must not be more than 48 hours before the time fixed for the meeting (and for this purpose no account shall be taken of any part of a day that is not a working day).

Restrictions on shareholders' rights

Subject to the Articles, and unless the Directors decide otherwise, if a shareholder has failed to supply information about interests in shares which the shareholder is required to provide within 14 days of receiving a notice issued by the Company under Section 793 of the Act, the shareholder shall not be entitled to attend or vote at a shareholders' meeting for as long as the default continues, and any person who acquires these shares is subject to the same restrictions unless the transfer was:

- an approved transfer pursuant to a takeover; or
- a bona fide sale to a person unconnected with the shareholder; or
- the transfer was made by a shareholder who was (a) not himself in default in supplying the information, and (b) when presented for registration the transfer is accompanied by a certificate issued by the Directors stating that, after due and careful enquiries, the shareholder is satisfied that none of the shares included in the transfer are such shares. In addition, if the shareholder's interests represents 0.25% or more of the existing shares of a class, (a) the Directors may withhold payment of any dividend or other money, (b) the shareholder will not be allowed to register to receive shares in place of dividends, and (c) the Directors may refuse to register the transfer of such shares unless one of the provisos outlined above was satisfied.

Variation of rights

If the Company's share capital is split into different classes of shares, the rights attached to any class of share may be varied by a special resolution passed at a separate meeting of that class of shareholders or with the written consent of at least 75% of the holders of the existing shares of the class (by nominal value).

Alteration of share capital

The shareholders can by ordinary resolution: (a) consolidate, or consolidate and then divide, all or any of the Company's share capital into new shares of a larger nominal amount than the existing shares; and (b) divide some or all of the Company's share capital into shares that are of a smaller nominal value than the existing shares. This is subject to any restrictions under the Act and all other laws and regulations applying to the Company. The resolution may provide that, as between the holders of the divided shares, different rights and restrictions that the Company can apply to new shares may apply to all or any of the different divided shares. The Company may reduce its share capital by special resolution confirmed by the court in accordance with Section 641 of the Act and subject to its Articles. In accordance with Section 690 of the Act, the Company may purchase its own shares (including any redeemable shares) subject to Chapter 4 of the Act and the Articles. However, if the Company has securities that are admitted to the Official List of the UK Listing Authority and that are convertible into equity shares, then the Company can only buy back equity shares if either the terms of issue of the listed securities permit the Company to buy back equity shares or the buy back, or agreement to buy back, has been approved by a special resolution passed by holders of the listed securities.

Transfer of shares

Unless otherwise provided in the Articles or the terms of issue of any shares, any shareholder may transfer any or all of his shares. The Directors may refuse to register a transfer of shares in certificated form that are not fully paid-up or otherwise in accordance with the Articles. However, if any of those shares have been admitted to the Official List of the UK Listing Authority, the Directors cannot refuse to register a transfer if this would stop dealings in the shares from taking place on an open and proper basis. If the Directors decide not to register a transfer, they must notify the person to whom the shares were to be transferred of the refusal, together with reasons for the refusal, as soon as practicable and in any event within two months after the date on which the Company receives the transfer (in the case of a share in certificated form) or the instruction from the operator of the relevant system (including CREST, in the case of a share in uncertificated form).

Powers for the Company to buy back or allot its own shares

In order to enable the Company to return value to shareholders, the Company was given authority at the 2012 AGM to make market purchases of up to 339 614 578 of its own ordinary 10p shares at a maximum price per share of 105% of the average middle market closing price of the shares for the five trading days prior to the relevant purchase. This authority will expire at the conclusion of the 2013 AGM and approval from shareholders will be sought at that meeting to renew the authority for a further year.

At the 2012 AGM, the Directors were given the power to allot shares up to a maximum nominal amount of £114 597 739, representing approximately 1/3 of the Company's issued share capital (excluding treasury shares) as at 15 March 2012, together with ordinary shares outstanding under BG Group's share option schemes. This authority will expire at the conclusion of the 2013 AGM and approval from shareholders will be sought at that meeting to renew the authority for a further year.

Dividends

The shareholders can declare final dividends by ordinary resolution. No dividend can exceed the amount recommended by the Directors. No interim dividend shall be paid on shares that carry deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears. Unless the rights attaching to shares or the terms of any shares provide otherwise, dividends are paid based on the amounts that have been paid up on the shares in the relevant period.

The Directors can recommend that the shareholders pass an ordinary resolution to direct all or part of a dividend to be paid by distributing specific assets. The Directors must give effect to such a resolution. If a dividend has not been claimed for one year, the Directors may invest the dividend or use it in some other way for the benefit of the Company until the dividend is claimed. Any dividend that has not been claimed for 12 years may be forfeited and belong to the Company, if the Directors so decide.

Winding up

If the Company is wound up, the liquidator can, with the authority of a special resolution and any other sanction required by relevant law, divide among the shareholders all or part of the assets of the Company or transfer any part of the assets to trustees on trust for the benefit of the shareholders. No past or present shareholder can be compelled to accept any shares or other property under the Articles that carries a liability.

Research and development

The Act requires the Directors' report to state any activities in the field of research and development undertaken by the Company. In 2012, BG Group invested $52 million in research and development projects, up from $38 million in 2011. Focus areas of the 2012 research and development investments have been coal seam gas operations and drilling optimisation, carbon management and gas utilisation, and research to support the Group's exploration activities and to improve understanding of carbonate fields. A key milestone was the establishment of the first Science without Borders BG Group fellowship programme in Brazil. BG Group continues to be committed to increasing technology investment in Brazil and now expects to open a Global Technology Centre in Rio de Janeiro in 2014. See note 2, page 96 for research and development expenditure included in the income statement.

Branches

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

Employees

Employees are informed about significant business issues and BG Group's performance using webcasts, the Group's intranet and in-house publications, as well as at face-to-face briefing meetings at each business location. When appropriate, consultation with employee and union representatives also takes place.

Employees are encouraged to become shareholders in the Company and many participate in BG Group's share plans.

Equal opportunities

BG 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 equality 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 the Group's Human Resources Policy, which is available on the BG Group website.

Employees with disabilities

BG 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. The Group encourages its partners to take a similar approach to these issues where Group Policies or Standards are not able to be implemented directly.

Community

Donations

During 2012, BG Group donated around $328 794 to registered charities in the UK. More information on the Group's social performance and social investment activities can be found in the 2012 **Sustainability Report**, available online at **www.bg-group.com/sustainability**

BG Group's policy is not to make donations for political purposes. In 2012, no donations were made in any EU member state for political purposes, nor contributions made to any non-EU political parties.

Suppliers

BG Group aims to adopt fair payment practices in line with each country in which it operates and aims to pay all 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. In the UK, the Group is a signatory to the government's Prompt Payment Code. The Group had 16 days' purchases outstanding at 31 December 2012 (2011: 20 days') based on the average daily amount invoiced by suppliers during the year.

Significant contracts – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of BG Group following a takeover bid.

It is possible that the Republic of Kazakhstan may claim to have a right to acquire the Group's interest in the Final Petroleum Sharing Agreement governing the operation of the Karachaganak oil and gas condensate field (BG Group currently 29.25%) (or the shares in the company holding that interest) in the event of a change of control of BG Group following a takeover bid.

As at 31 December 2012, BG Energy Holdings Limited had bilateral, committed, multi-currency revolving borrowing facilities with a number of its relationship banks in an aggregate amount of $5.2 billion. All are currently undrawn. When taken together, these facilities are significant to the ongoing liquidity of the Group and repayment or cancellation of any or all of them may be demanded upon a change of control of BG Group.

No other agreements that take effect, alter or terminate upon a change of control of BG Group following a takeover bid are considered to be significant in terms of their potential impact on the business of the Group as a whole.

Essential contracts or other arrangements
Given the scope and diversity of BG Group's activities, BG Group does not consider that it has contractual or other arrangements that are essential to the business of BG Group.

Directors
The Directors are empowered to exercise all the powers of the Company subject to any restrictions in the Articles, the Act and any special resolution.

Conflicts of interest
The Company has procedures in place to manage Directors' conflicts of interest and potential conflicts of interest, which the Board considers operate effectively. All Directors have a duty to avoid situations that conflict with the interests of the Group. Directors are required to notify BG Group when they become aware of a conflict of interest or potential conflict of interest. Once notified, all matters are considered by the Nominations Committee and an appropriate recommendation is made to the Board on whether to authorise such conflict of interest or potential conflict of interest.

Certain safeguards apply when the Directors consider the conflict of interest or potential conflict of interest: (a) only Directors who have no interest in the matter are able to take the relevant decision; (b) in taking any decision, the Directors must act in a way that they consider, in good faith, will be most likely to promote the Company's success; and (c) the Directors are able to impose limits or conditions when giving such authorisation, if they think this is appropriate.

Annual re-election of Directors
The Articles provide that Directors are subject to re-election by shareholders every three years. The Board, however, decided in 2010 that, in accordance with the Governance Code, all Directors wishing to continue in office should offer themselves for re-election annually.

Indemnities and insurance
BG Group maintains liability insurance for its Directors and officers. The Directors, Company Secretary and members of the GEC have also been granted a qualifying third-party indemnity, under the Act, which remains in force. Neither the Company's indemnity nor insurance provides cover in the event that the indemnified individual is proved to have acted fraudulently or dishonestly.

Directors' borrowing powers
So far as the Companies Acts (as defined in Section 2 of the Act) allow, the Directors can exercise all the powers of the Company to: (a) borrow money; (b) issue debentures and other securities; and (c) give any form of guarantee or security for any debt, liability or obligation of the Company or of any third party.

The Directors must limit the Borrowings (as defined in the Articles) of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings, so as to ensure that the total amount of all Borrowings by the Group outstanding at any time will not exceed twice the Adjusted Total of Capital and Reserves (as defined in the Articles) at such time. This limit may be exceeded if the Company's consent has been given in advance by an ordinary resolution passed at a general meeting.

Statement of disclosure of information to auditors
As required by Sections 418 and 419 of the Act, each of the Directors has approved this report and confirmed that, so far as they are 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 they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Financial
Results and dividend
For the year ended 31 December 2012, the total profit for the Group before tax was $6 366 million (2011: $7 237 million). A final dividend of 14.26 cents per ordinary share is proposed (2011: 12.96 cents), making a total dividend for 2012 of 26.14 cents (2011: 23.76 cents). The results are dealt with more fully in the **Financial statements** on pages 83 to 137 and summarised in the **Financial review** on pages 26 to 31.

The Trustees of the BG Group New Employees Share Trust, the BG Group plc Employee Share Trust and the BG Group Share Incentive Plan have waived their right to receive dividends over 414, 3 071 566 and 4 230 ordinary shares respectively.

Going concern
BG Group's business activities, together with factors likely to affect its future development, performance and position, are set out in the **Business review** on pages 2 to 41. The financial position of the Group, its cash flows, liquidity position and borrowing facilities, as well as the Group's objectives, policies and processes for managing capital, are described on pages 2 to 49. Financial risk management objectives, details of financial instruments and hedging activities and exposures to credit risk and liquidity risk are described in note 19, page 111. The Directors consider that the Group's business activities and financial resources ensure that 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 Financial statements 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, the Directors' Remuneration report and the Financial statements in accordance with applicable law and regulations.

The Act requires the Directors to prepare Financial statements for each financial year. Under the Act, the Directors have prepared the Group and the parent Company Financial statements in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Act. 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 83 to 137, 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 all 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 and the Directors' Remuneration report comply with the Act and, as regards the Group Financial statements, Article 4 of the International Accounting Standard Regulation.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of BG 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. The Directors confirm that the Audit Committee continues to review the adequacy of the system of internal control adopted by BG Group.

A copy of the Financial statements of the Company is placed on the BG Group website. 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.

Pursuant to Rule 4.1.12 of the Disclosure and Transparency Rules, each of the Directors, the names and functions of whom are set out on pages 44 to 45, confirms that to the best of his or her knowledge:

- the BG Group Financial statements, which have been prepared in accordance with IFRSs, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the management report represented by the **Directors' report** on pages 2 to 79 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

The Directors have concluded that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess BG Group's performance, business model and strategy in accordance with the UK Corporate Governance Code (September 2012).

The Board's review of the system of internal control

The Board, with the advice of the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal controls system for the period 1 January 2012 to the date of this report, and is satisfied that the Group complies in this respect with the Internal Control: Guidance to Directors (formerly the Turnbull Guidance).

Directors' report – principal disclosures

Information required to be disclosed in the Directors' report is set out on the following pages:

By order of the Board

Chris Finlayson
Chief Executive

Den Jones
Interim Chief Financial Officer

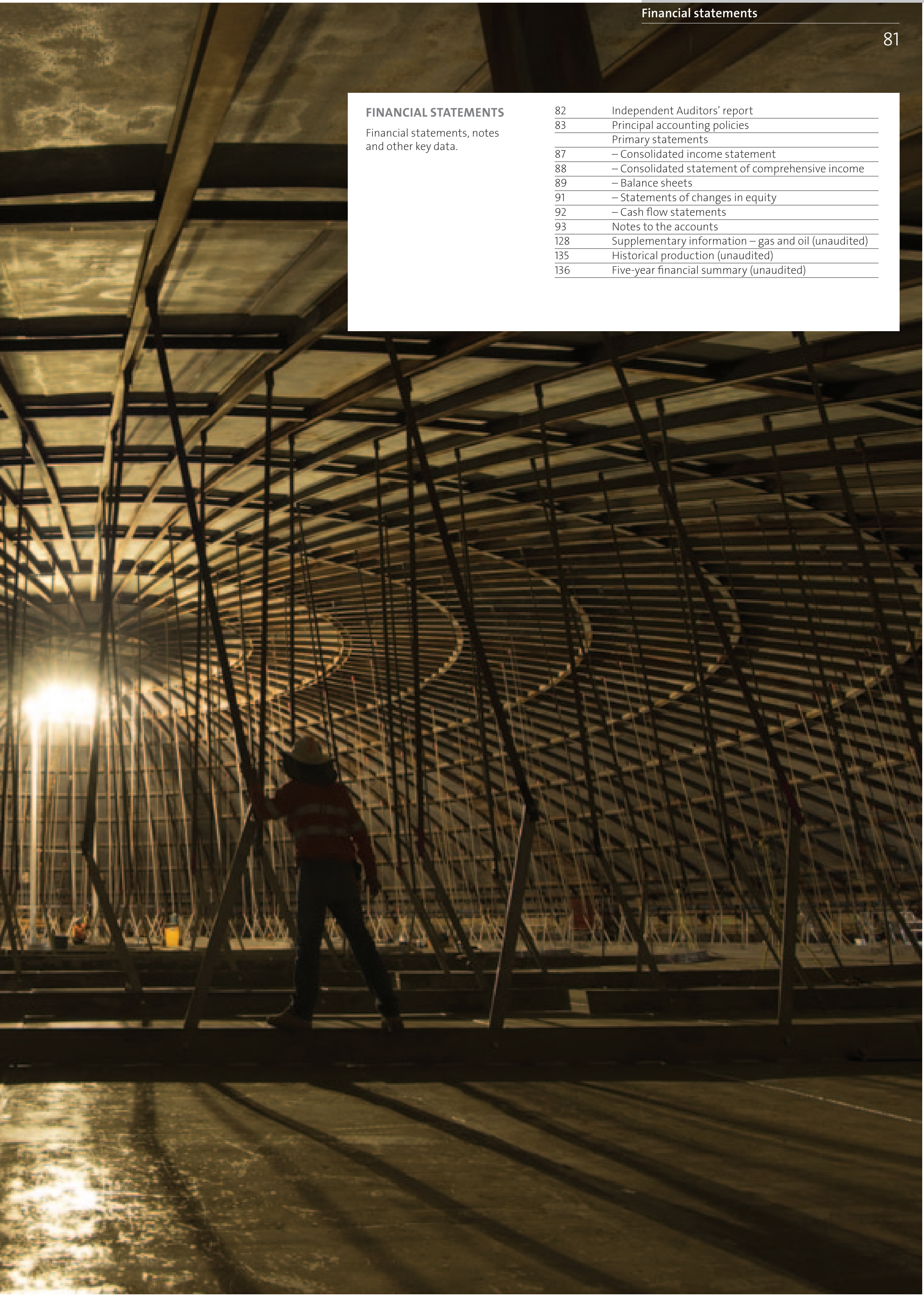
20 March 2013

Registered Office:
100 Thames Valley Park Drive
Reading
Berkshire RG6 1PT
United Kingdom

Registered in England & Wales
No. 3690065

INSIDE ONE OF THE LNG STORAGE TANKS AT THE QCLNG PROJECT, CURTIS ISLAND, QUEENSLAND, AUSTRALIA

The QCLNG project includes the construction of a two-train LNG plant on Curtis Island where the gas will be converted to LNG for export.



FINANCIAL STATEMENTS

Financial statements, notes and other key data.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BG GROUP PLC

We have audited the Financial Statements of BG Group plc for the year ended 31 December 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Group and parent Company Balance sheets, the Group and parent Company Statements of changes in equity, the Group and parent Company Cash flow statements, the 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 (IFRS) as adopted by the European Union and, as regards the parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities for preparing the Financial Statements set out on pages 78 to 79, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the 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 and 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. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2012 to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2012 and of the Group's profit and Group's and parent Company's cash flows for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent Company Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required 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 and the part of the Remuneration report to be audited 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 78, in relation to going concern;
- the parts of the Corporate Governance section of the Directors' report relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Mark King

Mark King (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants
and Statutory Auditors
London

20 March 2013

PRINCIPAL ACCOUNTING POLICIES

Basis of preparation
The Financial Statements for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS), and IFRS Interpretations Committee interpretations (IFRIC) as adopted by the European Union. 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.

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. All inter-company transactions are eliminated on consolidation. Consistent accounting policies have been used to prepare the consolidated Financial Statements.

Most of BG Group's exploration and production (E&P) 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. For the Company Financial Statements only, investments in subsidiary undertakings are stated at cost less any provision for impairment.

Presentation of results
BG Group presents its results in the income statement to separately identify the contribution of disposals, certain re-measurements, impairments and certain other exceptional items in order to provide readers with a clear and consistent presentation of the underlying operating performance of the Group's ongoing business; see note 1, page 93 and note 9, page 103.

In the fourth quarter, the Group completed the sale of its interest in Comgás in Brazil and the disposal of BG Italia Power (BGIP) and reached agreement to sell its interest in Gujarat Gas Company Limited (GGCL) in India. Together, Comgás, BGIP and GGCL represented the majority of the Group's Transmission & Distribution (T&D) business segment and as a result of these transactions, these businesses, together with certain other assets in the T&D segment, have been treated as discontinued operations for the year ended 31 December 2012. The remaining T&D businesses, primarily Mahanagar Gas in India, have been allocated to the Other segment. A single amount is presented on the income statement for discontinued operations, comprising the post-tax results of these businesses and any post-tax profit or loss recognised on re-measurement to fair value less costs to sell and on disposal of the businesses. Comparative information has also been restated to reflect the presentation of discontinued operations as a separate line item. See note 1, page 93 and note 7 page 102.

Additionally, the Group's remaining business segments have been reviewed. Previously, exploration and production operations have been reported in the E&P segment and liquefaction operations in the LNG segment. The Group's operations are integrated across all parts of the gas chain, particularly in Australia, Egypt and Trinidad and Tobago, which comprise exploration, production and liquefaction operations, and therefore the liquefaction businesses have been combined with the previous E&P segment to form the 'Upstream' segment. The remaining businesses comprising the LNG segment, including the Group's interests in regasification plants, have been renamed 'LNG Shipping & Marketing'.

Significant accounting judgements and estimates
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. BG Group believes that the accounting policies associated with exploration expenditure, depreciation, decommissioning, impairments and tax are the policies where changes in estimates and assumptions could have a significant impact on the Financial Statements.

Reserves, impairment and depreciation
One factor that affects the calculation of depreciation and impairment in particular is the estimation of hydrocarbon reserves and resources. BG Group's estimates of reserves and resources 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 and resources, including the available reservoir data, commodity prices and future costs, and the amount is subject to periodic revision as these factors change.

BG Group uses a range of short and long-term assumptions to determine the net present value of future cash flows for use in impairment reviews unless short-term market assumptions are more appropriate to the asset under review. Particular assumptions that impact the calculations are commodity prices, reserves estimates, exchange rates, discount rates and the value of risked exploration acreage. Pages 32 to 37 include further detail in relation to commodity prices, reserves estimates and exchange rates.

In 2012, a weaker outlook for US natural gas prices led to some of the Group's reserves being no longer deemed economic, which led to a downgrade of reserves and a $1.3 billion post-tax impairment on certain US shale gas assets. A decline in the Group's reserves and an increase in receivables relating to the West Delta Deep Marine field in Egypt, and revisions to the Group's expected investment in QCLNG in Australia constituted impairment triggers during 2012, however, following testing, no impairments were required.

BG Group estimates that a 1% change throughout 2012 in the estimation of proved, proved developed and proved plus probable reserves associated with producing fields would have changed the 2012 depreciation charge by $22 million.

Exploration expenditure
Expenditure on unproved gas and oil reserves within intangible assets is reviewed at least annually to confirm the Group's continued right and intent to explore, develop or otherwise realise value from these assets. As at 31 December 2012, BG Group held a balance of $4 344 million (2011: $4 382 million) relating to expenditure on unproved gas and oil reserves within intangible assets. Capitalised exploratory well costs included within this total amounted to $2 891 million (2011: $2 630 million). Unsuccessful exploration expenditure written off to the income statement in 2012 was $319 million (2011: $293 million). 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

The recognition and measurement of decommissioning provisions involves the use of estimates and assumptions. These include: the existence of a legal or constructive obligation to decommission, based on current legislation, contractual or regulatory requirements or best practice; the risk-free discount rate used to determine the net present value of the liability; the estimated cost of decommissioning based on internal and external engineering estimates and reports; and the payment dates of expected decommissioning costs which are uncertain and are based on economic assumptions surrounding the useful economic lives of the fields concerned. Actual costs could differ from estimated costs due to changes in legislation, regulations, technology, price levels and the expected date of decommissioning.

On the basis that all other assumptions in the calculation remain the same, a 10% change in the cost estimates used to assess the final decommissioning obligations would result in a change to the decommissioning provision of $377 million as at 31 December 2012. This change would be principally offset by a change in the value of the associated asset, resulting in no material change to the consolidated net assets. The impact on 2013 profit of such a change is estimated to be $50 million (pre-tax), comprising a $39 million change in the depreciation charge and a $11 million change in the unwinding of the provision charge.

Current and deferred income tax

BG Group is subject to income taxes in numerous jurisdictions. There are transactions and calculations for which the ultimate tax determination is uncertain. The Group periodically evaluates situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

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. To determine the future taxable income, reference is made to the latest available profit forecasts. This requires assumptions regarding future profitability and is therefore inherently uncertain.

Significant items where the Group has relied on estimates of future taxable income include a deferred tax asset in respect of the US tax group amounting to $520 million (2011: $3 million).

Significant accounting policies

Exploration expenditure

BG 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 commercial reserves have been discovered.

When proved reserves are determined, the relevant expenditure, including licence acquisition costs, is transferred to property, plant and equipment. Relevant exploration expenditure associated with unconventional activities, including coal seam and shale gas, is transferred to property, plant and equipment on the determination of proved plus probable reserves. Exploration expenditure transferred to property, plant and equipment is subsequently depreciated on a unit of production basis. Expenditure deemed to be unsuccessful is written off to the income statement.

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 commercial 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 commercial 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 and service concession arrangements are recognised at cost less amortisation. They are amortised on a straight-line basis over the term of the related contracts or concession.

Changes in depreciation and amortisation estimates are dealt with prospectively.

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 asset, 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.

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. Expenditure on unproved gas and oil reserves is assessed for impairment when facts and circumstances suggest that its carrying amount exceeds its recoverable amount.

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.

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.

Financial instruments

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

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

Certain derivative financial instruments are designated as hedges in line with the Group's risk management policies. Gains and losses arising from the re-measurement of these financial instruments are either recognised in the income statement or deferred in other comprehensive income depending on the type of hedging relationship. When a hedging instrument is sold or expires, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income 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.

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.

Commodity instruments

Within the ordinary course of business BG Group routinely enters into sale and purchase transactions for commodities. The majority of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the commodity in accordance with the Group's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS 39.

Certain long-term gas sales contracts have pricing terms that bring them into the scope of IAS 39. In addition, commodity instruments are used to manage certain price exposures in respect of optimising the timing and location of 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; see Presentation of results on page 83; note 1, page 93; and note 9, page 103.

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

Revenue recognition

Revenue associated with exploration and production sales (of natural gas, crude oil and petroleum products) is recorded when title passes to the customer. Revenue from the production of natural gas and oil in which BG 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).

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.

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

Other accounting policies

Business combinations and goodwill

In the event of a business combination, the acquisition method of accounting is applied and fair values are attributed to the net assets acquired. Goodwill, which represents the difference between the purchase consideration, the amount of any non-controlling interest, the fair value of any previously held equity interest 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 non-US Dollar entities. Accordingly, it is retranslated into US Dollars 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.

Service concession arrangements

Infrastructure associated with public-to-private service concession arrangements considered to be under the control of a regulator is recognised as an intangible concession asset when there is no contractual right to receive cash from the regulator. Intangible concession assets are amortised over the concession period. Additions to the infrastructure are accounted for as a construction contract with the regulator, with revenues and associated costs recognised in the income statement using the percentage of completion method based on costs incurred to date.

Inventories

Inventories, including inventories of 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.

Foreign currencies

The Group's cash flows and economic returns are principally denominated in US Dollars. From 1 January 2010, BG Group changed the currency in which it presents its consolidated and parent Company Financial Statements from Pounds Sterling (the functional currency of the Company) to US Dollars.

The exchange rates of US Dollar to Pound Sterling over the periods included in this Annual Report and Accounts are as follows:

US$/UK£ exchange rate	**2012**	2011	2010	2009	2008
Closing rate	**1.6255**	1.5541	1.5657	1.6149	1.4378
Average rate	**1.5848**	1.6079	1.5489	1.5510	1.8934

On consolidation, assets and liabilities denominated in currencies other than US Dollars are translated into US Dollars at closing rates of exchange. Non-US Dollar trading results of the parent company, subsidiary undertakings, jointly controlled entities and associates are translated into US Dollars at average rates of exchange. Differences resulting from the retranslation of the opening net assets and the results for the year are recognised in other comprehensive income. Any differences arising from 1 January 2003, the date of transition to IFRS, are presented as a separate component of equity.

Share capital, share premium and other reserves are translated into US Dollars at the historical rates prevailing at the date of the transaction.

Exchange differences on monetary assets and liabilities arising in individual entities 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 investment is disposed of. All other exchange movements are dealt with through the income statement.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax, determined using currently enacted or substantively enacted tax laws.

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. 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.

BG 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.

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. Actuarial gains and losses below this threshold are not recognised.

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. 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 the share price on the date of the grant 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.

Accounting developments during 2012

Amendment to IFRS 7 'Financial Instruments: Disclosures'

The IASB issued an amendment to IFRS 7 in October 2010. The amendment primarily introduces new disclosure requirements associated with the transfer and securitisation of financial assets. The amendment was adopted by the Group for the year ended 31 December 2012 but did not result in any changes to the Financial Statements of the Group or Company.

Amendment to IAS 12 'Income Taxes'

The IASB issued an amendment to IAS 12 regarding deferred tax on investment properties measured at fair value. The amendment was adopted by the Group for the year ended 31 December 2012 but did not result in any changes to the Financial Statements of the Group or Company.

Accounting developments not yet adopted

The following standards and amendments have been issued by the IASB up to the date of this report and in some cases have not yet been endorsed by the European Union.

Amendment to IAS 19 'Employee Benefits'

The IASB issued an amended IAS 19 in June 2011. The main amendment is to eliminate the option to defer the recognition of actuarial gains and losses, known as the 'corridor method'. The impact on the Group will be that all actuarial gains and losses will be recognised in other comprehensive income as they occur. In addition, net interest expense will be calculated based on applying a single discount rate to the net deficit, replacing interest cost and expected return on plan assets. The amended standard will be adopted by the Group for the year ended 31 December 2013. The impact on the balance sheet as at 1 January 2012 is estimated to be a reduction in net assets of $164 million. For the year ended 31 December 2012, the impact on profit before tax is estimated to be a $21 million reduction and the post-tax impact on other comprehensive income is estimated to be a $14 million gain. The impact on the balance sheet as at 1 January 2013 is estimated to be a reduction in net assets of $146 million.

Amendment to IAS 1 'Presentation of Financial Statements'

The IASB issued an amended IAS 1 in June 2011. The main amendment is a requirement to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to the income statement. The amended standard will be adopted by the Group for the year ended 31 December 2013 and is not expected to have a material impact on the Group's Financial Statements.

IFRS 13 'Fair Value Measurement'

The IASB issued IFRS 13 in May 2011. The standard introduces a definition of fair value and sets out in a single comprehensive standard a framework for all fair value measurements and associated disclosure requirements. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted. The standard will be adopted by the Group for the year ended 31 December 2013 and is not expected to have a material impact on the Group's Financial Statements.

Amendments to IAS 32 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'

The IASB issued amendments to IAS 32 and IFRS 7 in December 2011 on the subject of offsetting financial assets and financial liabilities. The amendment to IAS 32 provides more guidance on when an entity has a legally enforceable right of offset. The amendment to IFRS 7 introduces new disclosure requirements for financial instruments that are presented net in accordance with IAS 32. The amendments will be adopted by the Group for the year ended 31 December 2013 and are not expected to have a material impact on the Group's Financial Statements.

IFRS 10 'Consolidated Financial Statements'

The IASB issued IFRS 10 in May 2011. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be consolidated. The standard also provides additional guidance to assist in the determination of control. The standard will be adopted by the Group for the year ended 31 December 2014 and is not expected to have a material impact on the Group's Financial Statements.

IFRS 11 'Joint Arrangements'

The IASB issued IFRS 11 in May 2011. The standard aims to provide a more substance-based reflection of joint arrangements in the financial statements by focusing on the rights and obligations of the arrangement rather than the legal form. The standard will be adopted by the Group for the year ended 31 December 2014. BG Group is currently reviewing the standard to determine the likely impact on the Group's Financial Statements.

IFRS 12 'Disclosure of Interests in Other Entities'

The IASB issued IFRS 12 in May 2011. The standard introduces new and comprehensive disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard will be adopted by the Group for the year ended 31 December 2014. BG Group is currently reviewing the standard to determine the likely impact on the Group's Financial Statements.

IFRS 9 'Financial Instruments'

The IASB issued IFRS 9 in November 2009 and added to the scope of the standard in October 2010. In December 2011, the IASB issued amendments to the effective date of IFRS 9 and the transitional disclosures required by IFRS 7 'Financial Instruments: Disclosures'. IFRS 9 introduces new requirements for the classification and measurement of financial instruments and will be adopted by the Group no earlier than the year ended 31 December 2015. BG Group is currently reviewing the standard to determine the likely impact on the Group's Financial Statements.

Other revisions and amendments

Up to the end of 2012, the IASB issued 'Annual Improvements to IFRSs (2009-2011 Cycle)' applicable for the year ended 31 December 2013 and revisions of IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures', both applicable for the year ended 31 December 2014. The improvements and revisions are not expected to have a material impact on the Group's Financial Statements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December		The Group					
		2012			2011 Restated[a]		
	Note	Business performance $m	Disposals, re-measurements and impairments $m	Total $m	Business performance $m	Disposals, re-measurements and impairments $m	Total $m
Group revenue	1	**18 933**	**–**	**18 933**	17 667	–	17 667
Other operating income	1, 4	**30**	**237**	**267**	74	108	182
Group revenue and other operating income	1	**18 963**	**237**	**19 200**	17 741	108	17 849
Operating costs	2	**(11 358)**	**–**	**(11 358)**	(10 458)	–	(10 458)
Profits and losses on disposal of non-current assets and impairments	4	**–**	**(1 651)**	**(1 651)**	–	(414)	(414)
Operating profit/(loss)[b]	1	**7 605**	**(1 414)**	**6 191**	7 283	(306)	6 977
Finance income	4, 5	**125**	**97**	**222**	76	98	174
Finance costs	4, 5	**(214)**	**(122)**	**(336)**	(158)	(25)	(183)
Share of post-tax results from joint ventures and associates	1	**289**	**–**	**289**	269	–	269
Profit/(loss) before tax		**7 805**	**(1 439)**	**6 366**	7 470	(233)	7 237
Taxation	4, 6	**(3 410)**	**353**	**(3 057)**	(3 219)	78	(3 141)
Profit/(loss) for the year from continuing operations	1, 4	**4 395**	**(1 086)**	**3 309**	4 251	(155)	4 096
Profit/(loss) for the year from discontinued operations	7	**–**	**1 304**	**1 304**	–	219	219
Profit/(loss) for the year		**4 395**	**218**	**4 613**	4 251	64	4 315
Profit attributable to:							
Shareholders (earnings)	1	**4 395**	**124**	**4 519[d]**	4 251	(17)	4 234[c]
Non-controlling interest	1	**–**	**94**	**94**	–	81	81
		4 395	**218**	**4 613**	4 251	64	4 315
Earnings per ordinary share continuing operations (cents)							
Basic	9	**129.4**	**(31.9)**	**97.5**	125.4	(4.6)	120.8
Diluted	9	**128.7**	**(31.8)**	**96.9**	124.6	(4.5)	120.1
Earnings per ordinary share discontinued operations (cents)							
Basic		**–**	**35.6**	**35.6**	–	4.1	4.1
Diluted		**–**	**35.4**	**35.4**	–	4.0	4.0
Total earnings per ordinary share (cents)							
Basic		**129.4**	**3.7**	**133.1**	125.4	(0.5)	124.9
Diluted		**128.7**	**3.6**	**132.3**	124.6	(0.5)	124.1

Total operating profit/(loss) including share of pre-tax operating results from joint ventures and associates[d]	1	**8 047**	**(1 414)**	**6 633**	7 732	(306)	7 426

(a) See note 1 page 93 and note 7 page 102.
(b) Operating profit/(loss) is before share of results from joint ventures and associates.
(c) Comprises earnings from continuing operations of $3 309m (2011: $4 096m) and from discontinued operations of $1 210m (2011: $138m).
(d) This measurement is shown by BG Group as it is used as a means of measuring the underlying performance of the business.

For information on dividends paid and proposed in the year see note 8, page 103.

The accounting policies on pages 83 to 86 together with the notes on pages 93 to 127 form part of these accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December	**2012 $m**	2011 $m
Profit for the year	**4 613**	4 315
Net fair value losses on cash flow hedges	**(244)**	(928)
Transfers to income statement on cash flow hedges[a]	**836**	702
Net fair value gains/(losses) on net investment hedges	**627**	(158)
Fair value movements on 'available-for-sale assets'	**8**	20
Tax on cash flow and net investment hedges and fair value movements on 'available-for-sale assets'[b]	**(298)**	74
Currency translation adjustments[c]	**(1 055)**	(285)
Other comprehensive income for the year, net of tax[d]	**(126)**	(575)
Total comprehensive income for the year	**4 487**	3 740
Attributable to:		
Shareholders	**4 410**	3 694
Non-controlling interest	**77**	46
	4 487	3 740

(a) During 2012, a pre-tax loss of $843m (2011: $731m) was transferred from the hedging reserve to revenue to match against the underlying transactions, a pre-tax gain of $47m (2011: $29m) was transferred from the hedging reserve to other operating income in respect of discontinued cash flow hedges and a pre-tax loss of $40m was transferred from the hedging reserve related to the disposal of an associate (2011: $nil).
(b) Includes tax relating to cash flow hedges of $(141)m (2011: $41m), tax relating to net investment hedges of $(163)m (2011: $39m), and tax on fair value movements on 'available-for-sale assets' of $6m (2011: $(6)m).
(c) In 2012, a $355m gain (2011: $15m loss) was transferred to the income statement as part of the profit/(loss) on disposal of non-US Dollar denominated operations.
(d) Includes other comprehensive income/(expense) in respect of joint ventures and associates of $72m (2011: $(30)m).

The profit for the financial year for the Company was $15m (2011: $1 275m). Total comprehensive income for the Company was $383m (2011: $1 235m). As permitted by section 408 of the Companies Act 2006, no income statement or statement of comprehensive income is presented for the Company.

The accounting policies on pages 83 to 86 together with the notes on pages 93 to 127 form part of these accounts.

BALANCE SHEETS

as at 31 December	Note	The Group 2012 $m	The Group 2011 $m	The Company 2012 $m	The Company 2011 $m
Assets					
Non-current assets					
Goodwill	10	**24**	752	**–**	–
Other intangible assets	11	**4 469**	6 159	**–**	–
Property, plant and equipment	12	**43 925**	37 316	**–**	–
Investments in subsidiary undertakings	13	**–**	–	**4 130**	3 878
Investments	13	**2 488**	3 044	**–**	–
Deferred tax assets	22	**778**	589	**12**	9
Trade and other receivables	15	**896**	695	**–**	–
Commodity contracts and other derivative financial instruments	19	**532**	366	**–**	–
		53 112	48 921	**4 142**	3 887
Current assets					
Inventories	14	**792**	768	**–**	–
Trade and other receivables	15	**6 369**	7 375	**3 750**	4 381
Current tax receivable		**25**	141	**31**	25
Commodity contracts and other derivative financial instruments	19	**129**	331	**–**	–
Cash and cash equivalents	16	**4 434**	3 601	**2**	2
		11 749	12 216	**3 783**	4 408
Assets classified as held for sale	17	**386**	245	**–**	–
Total assets		**65 247**	61 382	**7 925**	8 295
Liabilities					
Current liabilities					
Borrowings	18	**(1 064)**	(1 160)	**–**	–
Trade and other payables	20	**(5 301)**	(5 342)	**(40)**	(55)
Current tax liabilities		**(1 377)**	(1 238)	**–**	–
Commodity contracts and other derivative financial instruments	19	**(423)**	(1 345)	**–**	–
		(8 165)	(9 085)	**(40)**	(55)
Non-current liabilities					
Borrowings	18	**(14 443)**	(13 977)	**–**	–
Trade and other payables	20	**(123)**	(72)	**–**	–
Commodity contracts and other derivative financial instruments	19	**(347)**	(696)	**–**	–
Deferred tax liabilities	22	**(4 636)**	(3 961)	**–**	–
Retirement benefit obligations	26	**(99)**	(214)	**–**	–
Provisions for other liabilities and charges	21	**(4 182)**	(3 603)	**–**	–
		(23 830)	(22 523)	**–**	–
Liabilities associated with assets classified as held for sale	17	**(158)**	(99)	**–**	–
Total liabilities		**(32 153)**	(31 707)	**(40)**	(55)
Net assets		**33 094**	29 675	**7 885**	8 240

The accounting policies on pages 83 to 86 together with the notes on pages 93 to 127 form part of these accounts.

as at 31 December	Note	The Group 2012 $m	The Group 2011 $m	The Company 2012 $m	The Company 2011 $m
Equity					
Ordinary shares	23	**578**	577	**578**	577
Share premium		**619**	584	**619**	584
Hedging reserve		**(191)**	(642)	**–**	–
Translation reserve		**1 934**	2 508	**12**	(356)
Other reserves		**2 710**	2 710	**1 203**	1 203
Retained earnings		**27 387**	23 647	**5 473**	6 232
Total shareholders' equity		**33 037**	29 384	**7 885**	8 240
Non-controlling interest in equity		**57**	291	**–**	–
Total equity		**33 094**	29 675	**7 885**	8 240

The accounts on pages 83 to 127 were approved by the Board and signed on its behalf on 20 March 2013 by:

Den Jones
Interim Chief Financial Officer

The accounting policies on pages 83 to 86 together with the notes on pages 93 to 127 form part of these accounts.

STATEMENTS OF CHANGES IN EQUITY

The Group	Called up share capital $m	Share premium account $m	Hedging reserve $m	Translation reserve[a] $m	Other reserves[b] $m	Retained earnings[c] $m	Total $m	Non-controlling interest $m	Total $m
As at 1 January 2011	576	537	(457)	2 877	2 710	20 085	26 328	356	26 684
Total comprehensive income for the year	–	–	(185)	(369)	–	4 248	3 694	46	3 740
Profit for the year	–	–	–	–	–	4 234	4 234	81	4 315
Hedges, net of tax	–	–	(185)	(119)	–	–	(304)	–	(304)
Fair value movements on 'available-for-sale assets', net of tax	–	–	–	–	–	14	14	–	14
Currency translation adjustments	–	–	–	(250)	–	–	(250)	(35)	(285)
Adjustment for share schemes	–	–	–	–	–	91	91	–	91
Tax in respect of share schemes[d]	–	–	–	–	–	6	6	–	6
Dividends	–	–	–	–	–	(760)	(760)	(111)	(871)
Issue of shares[e]	1	47	–	–	–	–	48	–	48
Net purchase of own shares	–	–	–	–	–	(23)	(23)	–	(23)
As at 31 December 2011	**577**	**584**	**(642)**	**2 508**	**2 710**	**23 647**	**29 384**	**291**	**29 675**
Total comprehensive income for the year	–	–	451	(574)	–	4 533	4 410	77	4 487
Profit for the year	–	–	–	–	–	4 519	4 519	94	4 613
Hedges, net of tax	–	–	451	464	–	–	915	–	915
Fair value movements on 'available-for-sale assets', net of tax	–	–	–	–	–	14	14	–	14
Currency translation adjustments	–	–	–	(1 038)	–	–	(1 038)	(17)	(1 055)
Adjustment for share schemes	–	–	–	–	–	88	88	–	88
Tax in respect of share schemes[d]	–	–	–	–	–	(18)	(18)	–	(18)
Dividends	–	–	–	–	–	(847)	(847)	(17)	(864)
Disposal of non-controlling interest	–	–	–	–	–	–	–	(294)	(294)
Issue of shares[e]	1	35	–	–	–	–	36	–	36
Net purchase of own shares	–	–	–	–	–	(16)	(16)	–	(16)
As at 31 December 2012	**578**	**619**	**(191)**	**1 934**	**2 710**	**27 387**	**33 037**	**57**	**33 094**

The Company	Called up share capital $m	Share premium account $m	Translation reserve $m	Other reserves[b] $m	Retained earnings $m	Total $m
As at 1 January 2011	576	537	(316)	1 203	5 650	7 650
Total comprehensive income for the year[f]	–	–	(40)	–	1 275	1 235
Adjustment for share schemes	–	–	–	–	91	91
Tax in respect of share schemes[d]	–	–	–	–	(1)	(1)
Dividends	–	–	–	–	(760)	(760)
Issue of shares[e]	1	47	–	–	–	48
Net purchase of own shares	–	–	–	–	(23)	(23)
As at 31 December 2011	**577**	**584**	**(356)**	**1 203**	**6 232**	**8 240**
Total comprehensive income for the year[f]	–	–	368	–	15	383
Adjustment for share schemes	–	–	–	–	88	88
Tax in respect of share schemes[d]	–	–	–	–	1	1
Dividends	–	–	–	–	(847)	(847)
Issue of shares[e]	1	35	–	–	–	36
Net purchase of own shares	–	–	–	–	(16)	(16)
As at 31 December 2012	**578**	**619**	**12**	**1 203**	**5 473**	**7 885**

(a) As at 31 December 2012, includes currency translation gains of $26m (2011: $14m losses) relating to joint ventures and associates.
(b) Other reserves, which are not distributable, represent the difference between the carrying value of subsidiary undertaking investments and their respective capital structures following the restructuring and refinancing in 1999.
(c) As at 31 December 2012, includes retained earnings in respect of joint ventures and associates of $666m (2011: $507m).
(d) This consists of current tax of $6m (2011: $18m) and deferred tax of $(24)m (2011: $(12)m) in the Group and current tax of $nil (2011: $1m) and deferred tax of $1m (2011: $(2)m) in the Company.
(e) The issue of shares relates to amounts issued to employees under employee share option schemes for a cash consideration of $36m (2011: $48m).
(f) Comprises profit for the year of $15m (2011: $1 275m) and currency translation adjustments of $368m (2011: $(40)m).

The accounting policies on pages 83 to 86 together with the notes on pages 93 to 127 form part of these accounts.

CASH FLOW STATEMENTS

for the year ended 31 December	Note	The Group 2012 $m	The Group 2011 $m	The Company 2012 $m	The Company 2011 $m
Cash generated by operations	27	**10 715**	9 773	**(14)**	(11)
Income taxes paid		**(2 720)**	(2 791)	**(4)**	(36)
Net cash inflow/(outflow) from operating activities		**7 995**	6 982	**(18)**	(47)
Cash flows from investing activities					
Dividends received		**151**	204	**–**	1 258
Proceeds from disposal of subsidiary undertakings and investments[a]		**2 185**	84	**–**	–
Proceeds from disposal of property, plant and equipment and intangible assets[b]		**754**	116	**–**	–
Purchase of property, plant and equipment and intangible assets		**(9 974)**	(10 300)	**–**	–
Loans to joint ventures and associates		**(4)**	(145)	**–**	–
Repayments from joint ventures and associates		**702**	94	**–**	–
Interests in subsidiaries, joint ventures and associates, and other investments[c]		**(429)**	(246)	**–**	–
Other loan advances		**(280)**	–	**–**	–
Net cash (outflow)/inflow from investing activities		**(6 895)**	(10 193)	**–**	1 258
Cash flows from financing activities					
Interest paid[d]		**(658)**	(343)	**–**	–
Interest received		**117**	96	**–**	–
Dividends paid		**(859)**	(772)	**(859)**	(772)
Dividends paid to non-controlling interest		**(18)**	(136)	**–**	–
Net proceeds from issue of new borrowings[e]		**2 925**	6 392	**–**	–
Repayment of borrowings		**(1 736)**	(940)	**–**	–
Issue of shares		**36**	48	**36**	48
Movements in own shares		**(16)**	(23)	**(16)**	(23)
Funding movements with subsidiary		**–**	–	**856**	(463)
Net cash (outflow)/inflow from financing activities		**(209)**	4 322	**17**	(1 210)
Net increase/(decrease) in cash and cash equivalents		**891**	1 111	**(1)**	1
Cash and cash equivalents at 1 January	16	**3 601**	2 551	**2**	1
Effect of foreign exchange rate changes		**28**	(61)	**1**	–
Cash and cash equivalents at 31 December[f]	16	**4 520**	3 601	**2**	2

There were no major non-cash transactions in 2012 or 2011.

The cash flows above are inclusive of discontinued operations (see note 7, page 102).

(a) 2012 includes the disposal of Comgás for gross cash proceeds of $1 674m ($1 572m net of the $102m cash held at the date of disposal), Philippines power assets for $360m and 20% equity in GNL Quintero for $176m. 2011 includes the disposal of Genting Sanyen Power for $81m.
(b) 2012 includes $651m for disposal of 10% of Group's interest in the Karachaganak gas-condensate project.
(c) 2011 includes $56m cash outflow in relation to the acquisition of a controlling interest in the Everest and Lomond fields in the UK which was treated as a business combination.
(d) Includes capitalised interest of $467m (2011: $206m).
(e) Includes net cash flows relating to short maturity financing.
(f) The balance at 31 December 2012 includes cash and cash equivalents of $4 434m (2011: $3 601m) and cash classified as assets held for sale of $86m (2011: $nil).

The accounting policies on pages 83 to 86 together with the notes on pages 93 to 127 form part of these accounts.

NOTES TO THE ACCOUNTS

1 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION

BG 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. At the end of 2012, BG announced its decision to reorganise its reporting segments following the sale or agreement to sell the majority of its T&D businesses. As a result, BG Group now has two principal operating and reporting segments which comprise Upstream and LNG Shipping & Marketing. Upstream comprises exploration, development, production, liquefaction and marketing of hydrocarbons with a focus on natural gas. LNG Shipping & Marketing combines the development and use of LNG import facilities with the purchase, shipping and sale of LNG and regasified natural gas. Following the disposal of the majority of the Group's T&D businesses, the T&D segment has been treated as discontinued. The T&D businesses that remain with BG Group have been allocated to the Other business segment. Other activities also include costs relating to business development expenditure and certain corporate activities. Comparative information has been restated to reflect the presentation of discontinued operations as a separate line item. See note 7, page 102, for further details.

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, depreciation, amortisation and impairment and capital investment attributable to BG Group activities are shown on pages 93 to 96, analysed by operating segment.

The presentation of BG Group's results under IFRS separately identifies the effect of the re-measurement of certain financial instruments, profits and losses on the disposal and impairment of non-current assets and certain other exceptional items when material. Results excluding discontinued operations and disposals, certain re-measurements, certain other exceptional items 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. Further information on Business performance is given on page 140.

The disposals, re-measurements and impairments column includes unrealised gains and losses in respect of certain long-term 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. Where these instruments represent economic hedges but cannot be designated as hedges under IAS 39, unrealised movements in fair value, together with foreign exchange movements associated with the underlying borrowings and foreign exchange movements on monetary items that form part of the Group's net investment in foreign operations, are recorded in the income statement and disclosed separately as 'disposals, re-measurements and impairments'. 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. BG 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 information provided for 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	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Group revenue[(a)(b)]						
Upstream	**11 161**	10 125	**780**	1 032	**11 941**	11 157
LNG Shipping & Marketing	**7 760**	7 523	**297**	231	**8 057**	7 754
Other	**12**	19	**–**	–	**12**	19
Segmental revenue	**18 933**	17 667	**1 077**	1 263	**20 010**	18 930
Less: Intra-Group revenue	**–**	–	**(1 077)**	(1 263)	**(1 077)**	(1 263)
Group revenue	**18 933**	17 667	**–**	–	**18 933**	17 667

(a) External revenue attributable to the UK is $3 052m (2011: $4 105m). External revenue attributable to non-UK countries is $15 881m (2011: $13 562m) and includes $3 944m attributable to Japan representing 21% of Group revenue (2011: $2 089m, 12%).

(b) External revenue in respect of a single external customer amounted to $2 402m (2011: $3 267m), recognised in the Upstream segment.

1 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION CONTINUED

PROFIT FOR THE YEAR

Analysed by operating segment

for the year ended 31 December	Business performance 2012 $m	Business performance 2011 $m	Disposals, re-measurements and impairments 2012 $m	Disposals, re-measurements and impairments 2011 $m	Total 2012 $m	Total 2011 $m
Group revenue	**18 933**	17 667	**–**	–	**18 933**	17 667
Other operating income[(a)(b)]	**30**	74	**237**	108	**267**	182
Group revenue and other operating income	**18 963**	17 741	**237**	108	**19 200**	17 849
Operating profit/(loss) before share of results from joint ventures and associates[(c)]						
Upstream	**5 104**	5 098	**(1 695)**	(308)	**3 409**	4 790
LNG Shipping & Marketing	**2 536**	2 219	**297**	(23)	**2 833**	2 196
Other activities	**(35)**	(34)	**(16)**	25	**(51)**	(9)
	7 605	7 283	**(1 414)**	(306)	**6 191**	6 977
Share of pre-tax operating results from joint ventures and associates						
Upstream	**360**	342	**–**	–	**360**	342
LNG Shipping & Marketing	**41**	63	**–**	–	**41**	63
Other activities	**41**	44	**–**	–	**41**	44
	442	449	**–**	–	**442**	449
Total operating profit/(loss)						
Upstream	**5 464**	5 440	**(1 695)**	(308)	**3 769**	5 132
LNG Shipping & Marketing	**2 577**	2 282	**297**	(23)	**2 874**	2 259
Other activities	**6**	10	**(16)**	25	**(10)**	35
	8 047	7 732	**(1 414)**	(306)	**6 633**	7 426
Net finance (costs)/income						
Finance income	**125**	76	**97**	98	**222**	174
Finance costs	**(214)**	(158)	**(122)**	(25)	**(336)**	(183)
Share of joint ventures and associates	**(39)**	(59)	**–**	–	**(39)**	(59)
	(128)	(141)	**(25)**	73	**(153)**	(68)
Taxation						
Taxation	**(3 410)**	(3 219)	**353**	78	**(3 057)**	(3 141)
Share of joint ventures and associates	**(114)**	(121)	**–**	–	**(114)**	(121)
	(3 524)	(3 340)	**353**	78	**(3 171)**	(3 262)
Profit for the year from continuing operations	**4 395**	4 251	**(1 086)**	(155)	**3 309**	4 096
Profit for the year from discontinued operations	**–**	–	**1 304**	219	**1 304**	219
	4 395	4 251	**218**	64	**4 613**	4 315
Profit attributable to:						
Shareholders (earnings)	**4 395**	4 251	**124**	(17)	**4 519**	4 234
Non-controlling interest	**–**	–	**94**	81	**94**	81
	4 395	4 251	**218**	64	**4 613**	4 315

(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 Shipping & Marketing operations and unrealised gains and losses arising from the mark-to-market movements of commodity-based derivative instruments, including certain 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 19, page 111. Further information on other operating income is given in note 4, page 100.

(b) Business performance Other operating income is attributable to segments as follows: Upstream $13m (2011: $(6)m), LNG Shipping & Marketing $17m (2011: $80m).

(c) Operating profit/(loss) before share of results from joint ventures and associates includes disposals and provisions for impairment of $(1 651)m (2011: $(414)m), attributable to segments as follows: Upstream $(1 640)m (2011: $(427)m), LNG Shipping & Marketing $5m (2011: $(12)m) and Other $(16)m (2011: $25m). Also included are: (i) non-cash re-measurements of $237m (2011: $108m), attributable to segments as follows: Upstream $(55)m (2011: $119m) and LNG Shipping & Marketing $292m (2011: $(11)m); and (ii) $319m (2011: $293m) of unsuccessful exploration expenditure written off and charged to the Upstream segment.

1 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION CONTINUED

PROFIT FOR THE YEAR CONTINUED

Analysed by operating segment

Total operating profit/(loss)

for the year ended 31 December	Business performance 2012 $m	Business performance 2011 $m	Disposals, re-measurements and impairments 2012 $m	Disposals, re-measurements and impairments 2011 $m	Total 2012 $m	Total 2011 $m
Upstream	**5 464**	5 440	**(1 695)**	(308)	**3 769**	5 132
LNG Shipping & Marketing	**2 577**	2 282	**297**	(23)	**2 874**	2 259
	8 041	7 722	**(1 398)**	(331)	**6 643**	7 391
Other activities	**6**	10	**(16)**	25	**(10)**	35
	8 047	7 732	**(1 414)**	(306)	**6 633**	7 426
Less: share of pre-tax operating results from joint ventures and associates					**(442)**	(449)
Add: share of post-tax results from joint ventures and associates					**289**	269
Net finance costs					**(114)**	(9)
Profit before tax					**6 366**	7 237
Taxation					**(3 057)**	(3 141)
Profit for the year from continuing operations					**3 309**	4 096
Profit for the year from discontinued operations					**1 304**	219
					4 613	4 315

JOINT VENTURES AND ASSOCIATES

Analysed by operating segment

for the year ended 31 December	Share of pre-tax operating results from joint ventures and associates 2012 $m	Share of pre-tax operating results from joint ventures and associates 2011 $m	Share of net finance costs and tax from joint ventures and associates 2012 $m	Share of net finance costs and tax from joint ventures and associates 2011 $m	Share of post-tax results from joint ventures and associates 2012 $m	Share of post-tax results from joint ventures and associates 2011 $m
Upstream	**360**	342	**(126)**	(132)	**234**	210
LNG Shipping & Marketing	**41**	63	**(16)**	(35)	**25**	28
Other activities	**41**	44	**(11)**	(13)	**30**	31
Continuing operations	**442**	449	**(153)**	(180)	**289**	269
Discontinued operations	**22**	25	**–**	(5)	**22**	20
	464	474	**(153)**	(185)	**311**	289

DEPRECIATION, AMORTISATION AND IMPAIRMENT

Analysed by operating segment

for the year ended 31 December	2012 $m	2011 $m
Upstream[(a)]	**4 455**	2 336
LNG Shipping & Marketing[(a)]	**202**	168
Other activities[(a)]	**14**	4
Continuing operations	**4 671**	2 508
Discontinued operations[(b)]	**233**	242
	4 904	2 750

(a) In 2012, includes charge for impairment of $2 107m (2011: $393m) in the Upstream segment, $44m (2011: $nil) in the LNG Shipping & Marketing segment and $10m (2011: $nil) in the Other segment. Further details of impairments are given in note 4, page 100.

(b) In 2012, includes charge for impairment of $150m (2011: $66m).

1 SEGMENTAL ANALYSIS AND RESULTS PRESENTATION CONTINUED

CAPITAL INVESTMENT

Analysed by operating segment

for the year ended 31 December	Capital expenditure[(a)]		Capital investment[(b)]	
	2012 $m	2011 $m	**2012 $m**	2011 $m
Upstream	**10 983**	9 859	**11 409**	10 215
LNG Shipping & Marketing	**11**	36	**15**	62
Other activities	**–**	–	**3**	3
Continuing operations	**10 994**	9 895	**11 427**	10 280
Discontinued operations	**297**	322	**297**	322
	11 291	10 217	**11 724**	10 602

(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.

As at 31 December 2012, the Group non-current assets balance (excluding derivative financial instruments, deferred tax assets and finance lease receivable) of $51 607m (2011: $47 773m) included an amount attributable to the UK of $7 777m (2011: $6 817m). The amount attributable to non-UK countries was $43 830m (2011: $40 956m) and included $21 277m (2011: $14 576m) attributable to Australia representing 41% (2011: 31%) of the Group total.

2 OPERATING COSTS

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

	2012 $m	2011 $m
Raw materials, consumables and finished goods	**3 478**	3 659
Inventory adjustments to net realisable value[(a)]	**1**	20
Employee costs (see note 3(C), page 98)	**1 236**	1 084
Less: Own work capitalised	**(315)**	(215)
Employee costs included within other line items in the income statement	**(133)**	(133)
	788	736
Amounts written off Investments, Property, plant and equipment and Other intangible assets and charged to operating costs:		
Impairments of Investments (see note 13, page 106)	**415**	–
Depreciation and impairments of Property, plant and equipment (see note 12, page 105)	**4 317**	2 215
Amortisation and impairments of Other intangible assets (see note 11, page 104)	**68**	461
Less: amounts reported within other line items in the income statement and balance sheet	**(2 290)**	(561)
	2 510	2 115
Unsuccessful exploration expenditure written off	**319**	293
Other operating charges:		
Other exploration expenditure[(b)]	**365**	354
Operating lease rentals	**536**	364
Research and development	**52**	38
Tariffs, royalties, liquefaction and regasification costs	**1 565**	1 354
Net foreign exchange losses/(gains) on operating activities	**27**	(14)
Other costs[(c)]	**1 717**	1 539
Continuing operations total	**11 358**	10 458

(a) Includes revaluation of LNG in storage.
(b) Broadly equivalent to cash flows attributable to operating activities arising from exploration and evaluation.
(c) Includes certain E&P lifting, storage, marketing and general administration costs.

2 OPERATING COSTS CONTINUED

AUDITORS' FEES AND SERVICES

PricewaterhouseCoopers LLP has served as BG Group's independent external auditors for the two-year period ended 31 December 2012, for which audited financial statements appear in this Annual Report and Accounts. The Company is required to appoint auditors at each general meeting at which annual accounts are laid before the Company, to hold office until the next such meeting. The Audit Committee has recommended the Board appoint Ernst & Young LLP as auditor of the Company to fill a casual vacancy following a competitive tender process for external audit services and PricewaterhouseCoopers LLP will resign with effect from 28th March 2013.

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

	2012 $m	2011 $m
Fees payable to the Group's auditors for the audit of both the parent Company and the Group's Annual Report and Accounts	**2.3**	1.8
Fees payable to the Group's auditors and its associates for other services:		
The audit of the parent's subsidiaries	**3.9**	3.7
Audit related assurance services[(a)]	**0.3**	0.6
	4.2	4.3
Total fees payable for audit services	**6.5**	6.1
Other assurance services	**–**	0.1
Tax advisory services[(b)]	**–**	0.7
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
All other services[(c)]	**0.4**	0.6
	6.9	7.7

In 2012, $36 000 of audit fees relates to audits of the Group's pension schemes (2011: $35 000).

(a) Audit related assurance services includes costs relating to the interim review and regulatory reporting.
(b) Tax advisory services includes fees billed for and assistance for the preparation of original and amended tax returns, tax consultations and advice (such as assistance in connection with tax audits, appeals and transactions) and tax planning services.
(c) All other services includes fees billed for attestation services, consultations concerning financial accounting and reporting standards, and other advice.

3 DIRECTORS AND EMPLOYEES

A) DIRECTORS' REMUNERATION

	2012 $000	2011 $000
Fees to Non-Executive Directors	**2 613**	2 518
Salaries[(a)]	**5 060**	4 065
Benefits[(a)(b)]	**224**	328
Bonuses[(a)(c)]	**–**	3 995
Share-based payments[(a)(d)]	**11 802**	10 460
Fees and benefits in respect of former Directors	**25**	50
	19 724	21 416

(a) Ashley Almanza served as an Executive Director until 31 March 2011 and the amounts reported above for Salaries, Benefits, Bonuses and Share-based payments include three months' remuneration for that period. For the remaining nine months of 2011, Ashley Almanza served as an Executive Vice President on the Group Executive Committee.
(b) In addition in 2012, two Directors (2011: two) had pension benefits accruing under defined benefit schemes and two Directors (2011: two) received cash in lieu of their pension totalling $616 000 (2011: $280 000).
(c) Bonus figures for 2011 represent payments under the AIS in respect of the 2011 incentive year which were made in 2012. Bonuses for 2011 include remuneration given in the form of awards under the Voluntary Bonus Deferral Plan. Bonuses exclude remuneration given in the form of mandatorily deferred shares under the Deferred Bonus Plan (DBP) (2012: $nil; 2011: $962 000).
(d) Share-based payments include a charge for deferred shares awarded to the Directors under the DBP in respect of the previous incentive year.

B) KEY MANAGEMENT COMPENSATION

	2012 $m	2011 $m
Fees to Non-Executive Directors	**3**	3
Salaries	**11**	11
Benefits[(a)]	**–**	–
Bonuses[(b)]	**4**	10
Pension charge[(c)]	**4**	4
Share-based payments[(d)]	**18**	21
	40	49

The key management compensation analysed above represents amounts in respect of the Directors and the executive officers, defined as the Group Executive Committee (GEC) and the Company Secretary.

(a) Total benefits of $0.5m were paid to key management in 2012 (2011: $0.5m).
(b) Bonus figures for 2012 include payments under the AIS in respect of the 2012 incentive year which will be made in 2013. Bonus figures for 2011 represent payments under the AIS in respect of the 2011 incentive year which were made in 2012. Bonuses for 2012 and 2011 include remuneration to be given in the form of awards under the Voluntary Bonus Deferral Plan. Bonuses exclude remuneration given in the form of mandatorily deferred shares (2012: $nil; 2011: $1 246 000).
(c) Includes benefits accruing under defined benefit schemes and cash in lieu of pensions.
(d) Share-based payments include a charge for deferred shares under the Deferred Bonus Plan (DBP) awarded to key management under the DBP in respect of the previous incentive year.

3 DIRECTORS AND EMPLOYEES CONTINUED

C) EMPLOYEE COSTS

	The Group	
	2012 $m	2011 $m
Wages and salaries[a]	**912**	815
Social security costs	**88**	82
Pension charge[b]	**93**	98
Share-based payments (see note 3(E), page 98)	**68**	90
Other including incentive schemes[c]	**177**	137
	1 338	1 222
Less: attributable to discontinued operations	**(102)**	(138)
Continuing operations	**1 236**	1 084

(a) Includes termination payments and payments in lieu of notice.
(b) The pension charge for the year ended 31 December 2012 includes a recognised actuarial loss of $nil (2011: $3m) and interest on plan liabilities of $9m (2011: $11m) in respect of discontinued operations and a $10m credit (2011: $14m) which is presented within finance costs (see note 26, page 123).
(c) Includes remuneration to be given in the form of shares under the Voluntary Bonus Deferral Plan.

In 2012, employee costs of $1 023m (2011: $1 007m) were charged to the income statement and $315m (2011: $215m) were capitalised.

D) AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR

	Employed in the UK		Employed outside the UK	
	2012 Number	2011 Number	**2012 Number**	2011 Number
Upstream	**1 776**	1 878	**2 888**	2 497
LNG Shipping and Marketing	**90**	95	**347**	349
Discontinued operations	**–**	4	**1 467**	1 649
	1 866	1 977	**4 702**	4 495

E) SHARE-BASED PAYMENTS

	The Group	
	2012 $m	2011 $m
Equity-settled share-based payments:		
Group share awards	**42**	38
Performance share awards	**25**	26
Other share awards[a]	**10**	13
	77	77
Cash-settled share-based payments	**(9)**	13
	68	90

(a) The charge for other share awards excludes an amount of $10m (2011: $14m) relating to shares and nil-cost options awarded under the Voluntary Bonus Deferral Plan, which was transferred to equity during 2012. This expense was recognised in the income statement during 2011 as part of the Annual Incentive Scheme (AIS) charge. The number of awards made was 0.4m (2011: 0.5m).

Group Share Awards

Details of Group Share Awards under the Group's Long-Term Incentive Plan (LTIP) are given on pages 62 and 63. Awards are in the form of shares (2012: 1.8m shares; 2011: 1.6m shares) or nil-cost options (2012: 1.8m options; 2011: 1.8m options). The costs in respect of these awards are charged to the income statement over the vesting period, based on the fair value of the shares and options at the award date. Dividend equivalents accrue on the award during the vesting period. Accordingly, the fair value of the shares and options awarded is based on the market value of the shares on the award date, which was £12.56 per share in 2012 (2011: £12.79 per share).

Performance Share Awards

Details of Performance Share Awards under the Group's LTIP are given on page 62 and 63. Awards are in the form of shares (2012: 0.5m shares; 2011: 0.5m shares) or nil-cost options (2012: 2.5m options; 2011: 2.6m options). The costs in respect of these awards are charged to the income statement over the vesting period, based on the fair value of the shares and options at the award date, adjusted for the probability of market-related performance conditions being achieved. The fair value of shares and options awarded during the year in respect of Performance Share Awards is estimated using a Monte Carlo projection model with the following assumptions: weighted average share price of £12.71 (2011: £12.76), exercise price of £nil (2011: £nil), a risk-free rate of 0.36% (2011: 0.41%) and a vesting period of three years (2011: three years). The model also contains assumptions for both the Group and each member of the industry peer group (set out on page 70) in respect of volatility, average share price growth and share price correlation. 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. 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 and options awarded during the year was £5.02 per share (2011: £7.12 per share).

3 DIRECTORS AND EMPLOYEES CONTINUED

E) SHARE-BASED PAYMENTS CONTINUED

Other Share Awards

The charge for Other share awards includes awards made under the Deferred Bonus Plan; the Sharesave Plan and the Share Incentive Plan.

The Deferred Bonus Plan operates in conjunction with the Annual Incentive Scheme and is described on page 62 and 63. In 2012, awards of 0.2m shares were made under this plan (2011: 0.2m shares). The charge to the income statement in respect of these awards was $4m in 2012 (2011: $5m) and is based on the market value of the shares at the award date, which was £15.38 in 2012 (2011: £14.99).

Details of the Sharesave Plan are given on page 71. The charge to the income statement in respect of this Plan is based on the fair value of the share options at the grant date and the likelihood of allocations vesting under the scheme. The charge was $1m in 2012 (2011: $2m). The fair value of the share options granted is determined using a Black-Scholes option pricing model and was £2.99 in 2012 (2011: £3.90).

Details of the Share Incentive Plan are given on page 71. In 2012, awards of 0.2m shares (2011: 0.2m shares) were made in conjunction with the Group's UK Flexible Benefits Plan. The charge to the income statement in respect of these awards was $5m in 2012 (2011: $6m) and is based on the market value of the shares at the grant date, which was £14.21 in 2012 (2011: £15.64).

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 the Company's shares. Most of the charge in respect of cash-settled share-based payments relates to social security costs on share awards which have not vested or, in the case of share options, have not been exercised. The charge to the income statement is based on the fair value of the awards outstanding at the balance sheet date, multiplied by the current employer's social security rate.

F) SUMMARY OF MOVEMENTS IN SHARE AWARDS AND SHARE OPTIONS

	Share awards under the LTIP m	Nil-cost options under the LTIP m	Sharesave Scheme and Sharesave Plan options m	CSOS options m
2011				
Outstanding as at 1 January 2011	8.0	9.2	2.2	17.3
Granted	2.1	4.4	0.4	–
Vested	(3.1)	n/a	n/a	n/a
Exercised	n/a	–	(0.9)	(4.1)
Forfeited	(1.9)	(0.9)	(0.1)	–
Outstanding as at 31 December 2011	5.1	12.7	1.6	13.2
Exercisable as at 31 December 2011	n/a	–	0.1	13.2
Option price range as at 31 December 2011 (£)	n/a	n/a	5.82-11.10	2.52-7.92
Weighted average remaining contractual life	n/a	8yrs 8mths	2yrs 0mths	4yrs 3mths
Option price range for exercised options (£)	n/a	n/a	3.95-8.63	2.52-7.92
Weighted average share price at the date of exercise for options exercised in the year (£)	n/a	n/a	14.47	14.13
2012				
Outstanding as at 1 January 2012	5.1	12.7	1.6	13.2
Granted	2.3	4.3	0.9	–
Vested	(1.2)	n/a	n/a	n/a
Exercised	n/a	(0.3)	(0.4)	(3.1)
Forfeited	(1.1)	(4.2)	(0.5)	–
Outstanding as at 31 December 2012	**5.1**	**12.5**	**1.6**	**10.1**
Exercisable as at 31 December 2012	**n/a**	**1.8**	**–**	**10.1**
Option price range as at 31 December 2012 (£)	**n/a**	**n/a**	**8.63-11.10**	**2.71-7.92**
Weighted average remaining contractual life	**n/a**	**8yrs 5mths**	**2yrs 6mths**	**3yrs 4mths**
Option price range for exercised options (£)	**n/a**	**n/a**	**5.82-10.27**	**2.71-7.92**
Weighted average share price at the date of exercise for options exercised in the year (£)	**n/a**	**n/a**	**14.30**	**13.40**

G) WEIGHTED AVERAGE EXERCISE PRICE OF SHARE OPTIONS

	2012 Sharesave Scheme and Sharesave Plan options £	**2012 CSOS options £**	2011 Sharesave Scheme and Sharesave Plan options £	2011 CSOS options £
Outstanding as at 1 January	**9.29**	**6.04**	7.87	6.04
Granted	**8.74**	**–**	11.10	–
Exercised	**7.25**	**5.77**	6.72	6.02
Forfeited	**10.26**	**–**	8.36	–
Outstanding as at 31 December	**9.14**	**6.13**	9.29	6.04
Exercisable as at 31 December	**–**	**6.13**	5.82	6.04

4 DISPOSALS, RE-MEASUREMENTS AND IMPAIRMENTS

BG Group has separately identified profits and losses related to disposals of non-current assets, impairments of non-current assets and certain other exceptional items, and certain re-measurements of financial instruments. A reconciliation of results before and after disposals, re-measurements and impairments is given in note 1, page 93.

	2012 $m	2011 $m
Other operating income:		
Re-measurements of commodity-based contracts	**237**	108
Profits and losses on disposal of non-current assets and impairments	**(1 651)**	(414)
Finance income	**97**	98
Finance costs	**(122)**	(25)
	(1 439)	(233)
Taxation on disposals, re-measurements and impairments	**353**	78
Loss for the year from continuing operations	**(1 086)**	(155)

OTHER OPERATING INCOME

Re-measurements included within Other operating income amount to a credit of $237m (2011: $108m credit), of which a credit of $140m (2011: $55m credit) represents non-cash mark-to-market movements on certain long-term gas contracts. Whilst the activity surrounding these contracts involves the physical delivery of gas, the contracts fall within the scope of IAS 39 and meet the definition of a derivative instrument. In addition, re-measurements include a $97m credit (2011: $53m credit) representing unrealised mark-to-market movements associated with economic hedges. Further information on commodity instruments is given in note 19, page 111.

DISPOSAL OF NON-CURRENT ASSETS AND IMPAIRMENTS

2012

In 2012, as a result of the weaker outlook for US natural gas prices, the Group reviewed the recoverable amount of certain assets associated with the shale gas business in the USA on a fair value less costs to sell basis using risk adjusted cash flow projections and discounted using a nominal rate of 8% (post-tax). This resulted in a pre-tax impairment charge of $1 800m (post-tax charge $1 295m) in the Upstream segment, reducing the carrying value of property, plant and equipment by $1 444m and the Group's investments by $356m.

In June 2012, the Group disposed of 10% of its interest in the Karachaganak gas-condensate project for consideration of $651m together with additional capacity in the Caspian Pipeline Consortium pipeline, and the final settlement of cost recovery and other claims. This resulted in the recognition of a pre-tax profit on disposal of $404m (post-tax profit $168m) in the Upstream segment.

In December 2012, following a reserves downgrade on the Gaupe field in Norway, the Group reviewed the recoverable amount of property, plant and equipment associated with the Gaupe field on a fair value less costs to sell basis using risk adjusted cash flow projections and discounted using a nominal rate of 8% (post-tax). This resulted in a pre-tax impairment charge of $154m (post-tax charge $34m) in the Upstream segment.

In September 2012, the Group completed the sale of the initial tranche of 20% equity in the Quintero LNG regasification facility in Chile. This resulted in a pre-tax profit on disposal of $146m (post-tax profit $110m).

In 2012, other plant disposals, write-offs and impairments (including provisions for certain other exceptional items) resulted in a pre-tax charge to the income statement of $247m (post-tax charge $159m).

2011

In 2011, following the Group's decision to discontinue exploration activity and exit certain licences and concessions in Africa and Asia, certain property, plant and equipment, exploration intangible and receivable balances were fully impaired. In addition, onerous contract and other provisions were made in respect of these exploration rights. The total pre-tax charge in respect of these impairments and provisions was $393m (post-tax charge $314m), recognised within the Upstream segment.

In 2011, other plant disposals, write-offs and impairments (including provisions for certain other exceptional items) resulted in a pre-tax charge to the income statement of $21m (post-tax profit $7m).

FINANCE INCOME AND COSTS

Re-measurements presented in finance income and costs include mark-to-market movements on certain derivatives used to hedge foreign exchange and interest rate risk, partly offset by foreign exchange movements on certain borrowings and movements on monetary items that form part of the Group's net investment in foreign operations.

5 FINANCE INCOME AND COSTS

	2012 $m	2011 $m
Interest receivable[a]	**222**	174
Finance income	**222**	174
Interest payable[b]	**(479)**	(193)
Finance lease charges	**(104)**	(107)
Interest capitalised[c]	**457**	191
Unwinding of discount on provisions and pension obligations[d]	**(88)**	(49)
Net fair value gains and losses on derivatives and fair value hedge adjustments[e]	**(122)**	(25)
Finance costs	**(336)**	(183)
Net finance costs – continuing operations	**(114)**	(9)

(a) Interest receivable includes net exchange gains of $97m (2011: $98m).
(b) Interest payable includes net exchange losses of $29m (2011: $1m).
(c) Finance costs associated with general Group central borrowings used to finance major capital projects are capitalised up to the point that the project is ready for its intended use. The weighted average interest cost applicable to these borrowings is 3.67% per annum (2011: 2.09%). Tax relief for capitalised interest is approximately $112m (2011: $51m).
(d) Amount in respect of pension obligations represents the unwinding of discount on the plans' liabilities offset by the expected return on the plans' assets. Also includes the unwinding of discount on decommissioning, other provisions and receivables.
(e) Comprises $4m gain associated with fair value hedge adjustments (2011: $271m charge) and $126m charge in respect of interest rate and currency exchange rate derivatives (2011: $246m gain).

6 TAXATION

	2012 $m	2011 $m
Current tax		
UK – corporation tax at 24.5% and 62% (2011: 26.5% and 59.3%)	**1 871**	1 869
– petroleum revenue tax at 50%	**69**	115
– adjustments in respect of prior periods	**(110)**	(97)
– less: double tax relief	**(502)**	(896)
UK tax charge	**1 328**	991
Overseas tax charge	**1 816**	1 469
– adjustments in respect of prior periods	**(330)**	(254)
Current tax charge	**2 814**	2 206
Deferred tax		
Temporary differences	**213**	926[a]
Deferred petroleum revenue tax at 50%	**30**	9
Tax charge – continuing operations	**3 057**	3 141

(a) The 2011 deferred tax charge incorporates the effect of an additional charge of $148m in respect of the restatement of deferred tax balances at 1 January 2011 due to changes in UK tax rates.

The tax credit relating to disposals, re-measurements and impairments is $353m (2011: $78m). This consists of a tax charge on unrealised re-measurements of $88m (2011: $29m) and a tax credit on disposals and impairments of $441m (2011: $107m).

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

	2012 $m	2011 $m
Profit before taxation	**6 366**	7 237
Tax at UK statutory rates on profit	**2 155**	2 448
Effect on tax charge of:		
Non tax-deductible or non-taxable items	**(77)**	(4)
Overseas or petroleum revenue taxes at different rates to UK statutory rates	**1 294**	748
Effect of changes in tax rate on deferred tax balances	**25**	148
Prior year and other adjustments including unrelieved overseas tax losses	**(340)**	(199)
Tax charge – continuing operations	**3 057**	3 141

7 DISCONTINUED OPERATIONS

In the fourth quarter of 2012, the Group completed the sale of its interest in Comgás in Brazil and the disposal of BG Italia Power (BGIP) in Italy and reached agreement to sell its interest in Gujarat Gas Company Limited (GGCL) in India. Together, Comgás, BGIP and GGCL represented the majority of the Group's T&D business segment and as a result of these transactions, these businesses, together with certain other assets in the T&D segment, have been treated as discontinued operations for the year ended 31 December 2012. The remaining T&D businesses, primarily Mahanagar Gas in India, have been allocated to the Other segment. Comparative information has been restated to reflect the presentation of discontinued operations as a separate line item.

RESULTS FROM DISCONTINUED OPERATIONS

	2012 $m	2011 $m
Revenue	**3 159**	3 407
Operating costs	**(2 703)**	(2 956)
Operating profit	**456**	451
Finance (costs)/income	**(48)**	(90)
Share of post-tax results from joint ventures and associates	**22**	20
Profit before tax	**430**	381
Taxation	**(129)**	(117)
Profit after tax	**301**	264
Profits and losses on disposal of non-current assets and impairments	**1 132**	(68)
Taxation	**(129)**	23
Post-tax profits and losses on disposal of non-current assets and impairments	**1 003**	(45)
Profit for the year from discontinued operations	**1 304**	219

CASH FLOWS RELATING TO DISCONTINUED OPERATIONS

	2012 $m	2011 $m
Profit before tax	**430**	381
Share of post-tax results of joint ventures and associates	**(22)**	(20)
Depreciation of property, plant and equipment	**20**	34
Amortisation of other intangible assets	**63**	142
Decrease in provisions	**(12)**	(6)
Finance costs/(income)	**48**	90
Movements in working capital	**(114)**	53
Cash generated by operations	**413**	674
Income taxes received/(paid)	**(160)**	(163)
Net cash inflow from operating activities	**253**	511
Net cash (outflow) from investing activities	**(398)**	(291)
Net cash inflow/(outflow) from financing activities	**90**	(305)
Net decrease in cash and cash equivalents	**(55)**	(85)

DISPOSAL OF NON-CURRENT ASSETS AND IMPAIRMENTS 2012

The sale of the Group's investment in Comgás for gross cash proceeds of $1 674m resulted in a pre-tax profit of $1 037m (post-tax $896m), being the gross proceeds less net assets of $1 254m, currency translation gains recycled to the income statement of $378m, the derecognition of the non-controlling interest of $294m and $55m costs.

The sale of the Group's investments in the Santa Rita power plant and the San Lorenzo power plant in the Philippines for net cash proceeds of $360m resulted in a pre and post-tax profit of $252m.

Following the disposal of BGIP, a pre-tax charge of $110m (post-tax $89m) (2011: pre-tax charge of $66m, post-tax $41m) was recognised.

Following classification as held for sale, the Group's interest in the Bolivia-to-Brazil pipeline was revalued to fair value less costs to sell. This resulted in a pre-tax impairment charge of $43m (post-tax $52m).

Other disposals and impairments resulted in a pre and post-tax charge of $4m (2011: pre-tax charge $2m, post-tax $4m).

7 DISCONTINUED OPERATIONS CONTINUED

NET ASSETS DISPOSED OF IN RESPECT OF COMGÁS

	$m
Goodwill	**671**
Intangibles	**1 798**
Trade and other receivables	**477**
Commodity contracts and derivative financial instruments	**68**
Cash and cash equivalents	**102**
Borrowings	**(1 133)**
Current tax liabilities	**(76)**
Trade and other payables	**(423)**
Deferred tax liabilities	**(125)**
Provisions	**(105)**
Net assets	**1 254**

8 DIVIDENDS

	2012			2011		
	$m	**Cents per ordinary share**	**Pence per ordinary share**	$m	Cents per ordinary share	Pence per ordinary share
Prior year final dividend, paid in the year	**443**	**12.96**	**8.19**	401	11.78	7.31
Interim dividend, paid in the year	**404**	**11.88**	**7.64**	359	10.80	6.63
Total dividend paid in the year	**847**	**24.84**	**15.83**	760	22.58	13.94
Proposed final dividend for the year ended 31 December 2012[a]	**485**	**14.26**	**9.03**			

(a) The proposed final dividend was announced on 5 February 2013 in US Dollars, with a Pound Sterling equivalent. It is paid to shareholders in Pounds Sterling. The total amount payable in US Dollars has been determined based on the shares in issue as at 31 December 2012 that are eligible for the dividend and the average US Dollar/Pound Sterling exchange rate for the three business days preceding the business day before the announcement. The total amount payable in US Dollars may vary, depending on movements in exchange rates between February 2013 and May 2013, when the dividend will be paid.

The proposed final dividend for the year ended 31 December 2012 of 14.26 cents per ordinary share takes the 2012 full-year dividend to 26.14 cents (16.67 pence) per ordinary share.

The final dividend of 12.96 cents per ordinary share ($443m) in respect of the year ended 31 December 2011 was paid on 25 May 2012. The interim dividend was paid on 7 September 2012. The proposed final dividend of 14.26 cents per ordinary share ($485m) in respect of the financial year ended 31 December 2012 is payable on 31 May 2013 to all shareholders on the register at the close of business on 19 April 2013.

9 EARNINGS PER ORDINARY SHARE – CONTINUING OPERATIONS

Earnings per ordinary share has been calculated by dividing the earnings for the financial year for the continuing operations of the Group of $3 309m (2011: $4 096m) by 3 396m (2011: 3 389m), being the weighted average number of ordinary shares in issue and ranking for dividend during the year. Earnings per ordinary share excluding disposals, re-measurements and impairments has been presented in order to reflect the underlying performance of the Group.

	2012		2011	
	$m	**Basic earnings per ordinary share cents**	$m	Basic earnings per ordinary share cents
Earnings excluding disposals, re-measurements and impairments	**4 395**	**129.4**	4 251	125.4
Disposals, re-measurements and impairments (see note 4, page 100)	**(1 086)**	**(31.9)**	(155)	(4.6)
Earnings including disposals, re-measurements and impairments	**3 309**	**97.5**	4 096	120.8

The earnings figure used to calculate diluted earnings per ordinary share is the same as that used to calculate earnings per ordinary share given above, divided by 3 415m (2011: 3 411m), being the weighted average number of ordinary shares in issue during the year as adjusted for dilutive equity instruments relating to the employee share schemes. A reconciliation of the weighted average number of ordinary shares used as the denominator in calculating the basic and diluted earnings per ordinary share is given below:

	2012 Shares m	2011 Shares m
Basic	**3 396**	3 389
Dilutive potential ordinary shares:		
Equity instruments outstanding during the year	**19**	22
Diluted basis	**3 415**	3 411
Diluted earnings per ordinary share (excluding disposals, re-measurements and impairments) (cents)	**128.7**	124.6
Diluted earnings per ordinary share (including disposals, re-measurements and impairments) (cents)	**96.9**	120.1

10 GOODWILL

The Group	**2012 $m**	2011 $m
Cost and net book value as at 1 January	**752**	820
Disposals (see note 7, page 102)	**(671)**	–
Additions	**–**	24
Currency translation adjustments	**(54)**	(92)
Reclassified as held for sale (See note 17, page 108)	**(3)**	–
Cost and net book value as at 31 December	**24**	752

For the purpose of impairment testing, goodwill is allocated to cash-generating units; these represent 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 2012, no goodwill impairment has been recognised.

11 OTHER INTANGIBLE ASSETS

The Group	Expenditure on unproved gas and oil reserves		Service concession asset[a]		Other[b]		Total	
	2012 $m	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Cost as at 1 January	**4 820**	5 468	**1 940**	1 970	**582**	558	**7 342**	7 996
Additions	**855[c]**	1 263[c]	**193**	208	**72**	89	**1 120**	1 560
Disposals and unsuccessful exploration expenditure[d]	**(406)**	(396)	**(1 951)**	(1)	**(270)**	–	**(2 627)**	(397)
Transfers to property, plant and equipment	**(562)**	(1 364)	**–**	–	**–**	–	**(562)**	(1 364)
Other movements	**62[e]**	(59)	**–**	–	**91**	–	**153**	(59)
Currency translation adjustments	**13**	(92)	**(182)**	(237)	**(98)**	(65)	**(267)**	(394)
Cost as at 31 December	**4 782**	4 820	**–**	1 940	**377**	582	**5 159**	7 342
Amortisation as at 1 January	**(438)**	(126)	**(442)**	(419)	**(303)**	(258)	**(1 183)**	(803)
Charge for the year[f]	**–**	–	**(31)**	(72)	**(37)**	(77)	**(68)**	(149)
Charge for impairment (see note 4, page 100)[f]	**–**	(312)	**–**	–	**–**	–	**–**	(312)
Disposals and transfers	**–**	–	**392**	–	**31**	–	**423**	–
Currency translation adjustments	**–**	–	**81**	49	**57**	32	**138**	81
Amortisation as at 31 December	**(438)**	(438)	**–**	(442)	**(252)**	(303)	**(690)**	(1 183)
Net book value as at 31 December	**4 344**	4 382	**–**	1 498	**125**	279	**4 469**	6 159

(a) Comgás operates under a concession arrangement with the local Regulator (ARSESP) to distribute gas to a number of different market segments in the state of São Paulo, Brazil. The arrangements between Comgás and the local Regulator are classified as a service concession arrangement in accordance with IFRIC 12. In accordance with IFRIC 12, all infrastructure associated with the service concession arrangement is recognised as an intangible concession asset with additions to the infrastructure being accounted for as a construction contract with the Regulator. BG Group disposed of its entire interest in Comgás in November 2012.
(b) Other includes the contractual rights in respect of the purchase of LNG regasification services and related gas sales at Elba Island in the USA. These rights are amortised on a straight-line basis over the term of the contract and have an average remaining useful life of eight years (2011: nine years). Other also includes capacity rights in the Caspian Pipeline Consortium export pipeline acquired in 2012 as part of the Karachaganak Settlement Agreement for the Karachaganak gas-condensate field disposal, which are amortised on a straight-line basis over the term of the contract and have an average remaining useful life of 25 years.
(c) Broadly equivalent to cash flows attributable to investing activities arising from exploration and evaluation.
(d) Disposals and unsuccessful exploration expenditure includes $339m (2011: $293m) in respect of unsuccessful exploration expenditure written-off and $1 798m in respect of intangibles disposed of as part of the sale of Comgás. Of the $1 798m intangibles disposed of, $239m are included within Other and represent contractual rights and software licences at Comgás.
(e) Includes $59m of assets reclassified from held for sale as they are no longer expected to be sold within 12 months.
(f) Amortisation charge and charge for impairment for the year is attributable to continuing and discontinued operations as follows:

	Amortisation		Impairment	
	2012 $m	2011 $m	**2012 $m**	2011 $m
Continuing operations	**5**	7	**–**	312
Discontinued operations	**63**	142	**–**	–
	68	149	**–**	312

12 PROPERTY, PLANT AND EQUIPMENT

The Group

	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 2012	122	184	7 962	1 515	41 283	51 066
Additions	7	25	3 170	173	6 796	10 171
Disposals, transfers and other movements[(a)]	32	(48)	(125)	(25)	318	152
Currency translation adjustments	2	(4)	–	44	441	483
Reclassified as held for sale	(15)	(157)	(62)	(3)	–	(237)
Cost as at 31 December 2012	**148**	**–**	**10 945**	**1 704**	**48 838**	**61 635**
Accumulated depreciation as at 1 January 2012	(53)	(46)	(932)	(665)	(12 054)	(13 750)
Charge for the year[(b)]	(1)	(5)	(161)	(182)	(2 183)	(2 532)
Charge for impairment[(b)] (see note 4, page 100)	(7)	–	(124)	(1)	(1 653)	(1 785)
Disposals and transfers	13	–	407	22	103	545
Currency translation adjustments	(2)	1	(1)	(20)	(247)	(269)
Reclassified as held for sale	2	50	27	2	–	81
Accumulated depreciation as at 31 December 2012	**(48)**	**–**	**(784)**	**(844)**	**(16 034)**	**(17 710)**
Net book value as at 31 December 2012[(c)(d)(e)]	**100**	**–**	**10 161**	**860**	**32 804**	**43 925**

The Group

	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 2011	125	194	5 623	1 290	32 711	39 943
Additions	1	17	2 238	296	6 105[(f)]	8 657
Business combinations	–	–	–	–	107	107
Disposals, transfers and other movements[(a)]	–	–	123	(52)	2 738	2 809
Currency translation adjustments	(4)	(27)	(22)	(19)	(378)	(450)
Cost as at 31 December 2011	**122**	**184**	**7 962**	**1 515**	**41 283**	**51 066**
Accumulated depreciation as at 1 January 2012	(53)	(47)	(706)	(549)	(10 325)	(11 680)
Charge for the year[(b)]	(1)	(7)	(178)	(163)	(1 796)	(2 145)
Charge for impairment[(b)] (see note 4, page 100)	–	–	(66)	(4)	–	(70)
Disposals and transfers	–	–	2	42	–	44
Currency translation adjustments	1	8	16	9	67	101
Accumulated depreciation as at 31 December 2011	**(53)**	**(46)**	**(932)**	**(665)**	**(12 054)**	**(13 750)**
Net book value as at 31 December 2011[(c)(d)(e)]	**69**	**138**	**7 030**	**850**	**29 229**	**37 316**

Details of BG Group's gas and oil reserves are given in Supplementary information – gas and oil (unaudited) on page 128.

(a) Includes, within Exploration and production, a transfer from other intangible assets of $562m (2011: $1 364m) and an increase in the decommissioning asset of $166m (2011: $1 503m). Includes, within Plant and machinery, an increase in the decommissioning asset of $329m (2011: $119m).

(b) Depreciation charge and charge for impairment for the year is attributable to continuing and discontinued operations as follows:

	Depreciation		Impairment	
	2012 $m	2011 $m	**2012 $m**	2011 $m
Continuing operations	**2 512**	2 111	**1 679**	4
Discontinued operations	**20**	34	**106**	66
	2 532	2 145	**1 785**	70

(c) The Group's net book value includes capitalised interest of $928m (2011: $504m) comprising Exploration and production $690m (2011: $412m) and Plant and machinery $238m (2011: $92m). A deferred tax liability is recognised in respect of this taxable temporary difference at current enacted rates.

(d) Includes the net book value of decommissioning assets of $2 729m (2011: $2 336m) and expenditure on Plant and machinery and Exploration and production assets under construction of $24 141m (2011: $14 168m).

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

as at 31 December	**2012 $m**	2011 $m
Cost	**2 670**	2 668
Accumulated depreciation	**(685)**	(576)
Net book value	**1 985**	2 092

(f) Excludes cash consideration of $56m in relation to the acquisition of a controlling interest in the Everest and Lomond fields in the UK.

13 INVESTMENTS

The Group

	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 2012	611	580	918	887	48	3 044
Investments	–	–	390	4	39	433
Disposals, transfers and other loan movements	–	(261)	78	(498)	(78)	(759)
Impairments[(a)]	(356)	–	(59)	–	–	(415)
Reclassified as held for sale	–	–	(86)	–	–	(86)
Share of retained profits less losses during the year[(b)]	59	–	118	–	–	177
Currency translation adjustments and fair value movements	3	16	25	(13)	63	94
Carrying value as at 31 December 2012	**317**	**335**	**1 384**	**380**	**72**[(c)]	**2 488**

The Group

	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 2011	683	380	814	914	33	2 824
Investments	10	106	176	33	4	329
Disposals, transfers and other loan movements	(125)	97	(109)	(60)	(7)	(204)
Share of retained profits less losses during the year[(b)]	61	–	48	–	–	109
Currency translation adjustments and fair value movements	(18)	(3)	(11)	–	18	(14)
Carrying value as at 31 December 2011	**611**	**580**	**918**	**887**	**48**[(c)]	**3 044**

(a) Comprises impairments of continuing operations of $372m (2011: $nil) and discontinued operations of $43m (2011: $nil).
(b) Comprises share of post-tax results for the year of $289m (2011: $269m) from continuing operations and $22m (2011: $20m) from discontinued operations, offset by share of dividends receivable by BG Group of $134m (2011: $180m).
(c) Includes an available-for-sale investment in Drillsearch Energy Limited (2011: includes an available-for-sale investment in Senex Energy Limited).

In 2012 the Group acquired an 8.47% interest in Drillsearch Energy Limited, 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 other comprehensive income. The fair value of the investment has been determined by reference to quoted market prices. As at 31 December 2012, the fair value of this investment was $57m (2011: $nil).

In 2011 the Group owned an 8.09% interest in Senex Energy Limited, a company listed on the Australian Securities Exchange. This investment was classified as an available-for-sale financial asset and was measured at fair value, with movements in fair value recognised in other comprehensive income. The fair value of the investment was determined by reference to quoted market prices and as at 31 December 2011 the fair value was $47m. The Group disposed of this investment in 2012.

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

as at 31 December	Joint ventures **2012 $m**	2011 $m	Associates **2012 $m**	2011 $m
Share of assets – non-current assets	**964**	1 285	**2 464**	2 649
– current assets	**151**	168	**319**	492
	1 115	1 453	**2 783**	3 141
Share of liabilities – current liabilities	**(97)**	(156)	**(181)**	(341)
– non-current liabilities	**(701)**	(686)	**(1 218)**	(1 882)
	(798)	(842)	**(1 399)**	(2 223)
Share of net assets	**317**	611	**1 384**	918

for the year ended 31 December	Joint ventures **2012 $m**	2011 $m	Associates **2012 $m**	2011 $m
Share of revenue	**325**	325	**1 105**	1 109
Share of operating costs	**(225)**	(231)	**(741)**	(729)
Share of operating profit	**100**	94	**364**	380
Share of finance costs	**1**	(1)	**(37)**	(57)
Share of tax	**(20)**	(17)	**(97)**	(110)
Share of post-tax results	**81**	76	**230**	213
Share of post-tax results from continuing operations	**81**	76	**208**	193
Share of post-tax results from discontinued operations	**–**	–	**22**	20

Further information on principal subsidiary undertakings, joint ventures and associates is given in note 28, page 127.

13 INVESTMENTS CONTINUED

The Company

	Subsidiary undertakings	
	2012 $m	2011 $m
As at 1 January	**3 878**	3 832
Capital contribution[(a)]	**74**	77
Currency translation adjustments	**178**	(31)
As at 31 December	**4 130**	3 878

(a) Represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes.

14 INVENTORIES

The Group
as at 31 December

	2012 $m	2011 $m
Raw materials and consumables	**452**	458
Finished goods for resale	**340**	310
	792	768

15 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
as at 31 December	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Amounts falling due within one year				
Trade receivables	**2 304**	2 443	**–**	–
Amounts owed by Group undertakings	**–**	–	**3 750**	4 381
Amounts owed by joint ventures and associates (see note 25, page 122)	**45**	40	**–**	–
Other receivables	**833**	735	**–**	–
Prepayments and accrued income	**3 187**	4 157	**–**	–
	6 369	7 375	**3 750**	4 381
Amounts falling due after more than one year				
Trade receivables	**376**	368	**–**	–
Other receivables	**520**	327	**–**	–
	896	695	**–**	–
Total receivables	**7 265**	8 070	**3 750**	4 381

Trade receivables are stated net of provisions. When management considers 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:

The Group	**2012 $m**	2011 $m
Provision as at 1 January	**101**	94
Charge for the year	**–**	7
Disposals	**(41)**	–
Provision as at 31 December	**60**	101

As at 31 December 2012, $849m (2011: $360m) of trade and other receivables were past due but not provided for; an analysis of these receivables is as follows:

The Group	**2012 $m**	2011 $m
Less than three months past due	**277**	114
Between three and six months past due	**150**	148
Between six and 12 months past due	**326**	42
More than 12 months past due	**96**	56
	849	360

Included within past due but not impaired receivables is a balance of $606m (2011: $171m) with Egypt General Petroleum Corporation (EGPC). Under repayment terms recently negotiated with EGPC, this balance is expected to be fully recovered by the end of 2015. The remaining balance relates to a diversified number of independent customers, $133m of which has been received post year end. For further information on the credit risk associated with trade receivables, including the EGPC balance, see note 19, page 111. There are no past due or impaired receivables in the Company (2011: $nil).

16 CASH AND CASH EQUIVALENTS

as at 31 December	The Group 2012 $m	The Group 2011 $m	The Company 2012 $m	The Company 2011 $m
Cash at bank and in hand	**128**	258	**2**	2
Cash equivalent investments	**4 306**	3 343	**–**	–
	4 434	3 601	**2**	2

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 2012 were between nil% and 8.4% (2011: nil% and 10.8%). For further information on the interest rate composition of the Group's financial assets see note 19, page 111.

17 ASSETS HELD FOR SALE

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

The Group as at 31 December	2012 $m	2011 $m
Goodwill	**3**	–
Other intangible assets	**1**	59
Property, plant and equipment	**156**	–
Investments in joint venture and associate entities	**86**	186
Inventories	**6**	–
Trade and other receivables	**48**	–
Cash and cash equivalents	**86**	–
Assets classified as held for sale	**386**	245
Trade and other payables	**(105)**	(7)
Current tax liabilities	**(37)**	–
Borrowings	**–**	(92)
Deferred income tax liabilities	**(14)**	–
Provisions for other liabilities and charges	**(2)**	–
Liabilities associated with assets classified as held for sale	**(158)**	(99)
Net assets classified as held for sale[a]	**228**	146

(a) Includes cumulative currency translation adjustments of $(39)m (2011: $(20)m) and cumulative cash flow hedge reserves of $(38)m (2011: $nil) in respect of the above assets and liabilities deferred within other comprehensive income.

In September 2012, BG Group completed the sale of the initial tranche of 20% equity in the Quintero LNG regasification facility in Chile. The sale of the second tranche of 20% equity is expected to complete in 2013 and accordingly this investment was reclassified as held for sale as at 31 December 2012.

In October 2012, the Group reached agreement to sell its 65.12% interest in GGCL in India to GSPC Distribution Networks Limited, a subsidiary of Gujarat State Petroleum Corporation, and GGCL was reclassified as held for sale as at 31 December 2012. This agreement, which is subject to regulatory approval, is expected to complete during the first half of 2013.

In November 2012, the Group signed an agreement to dispose of its holding in the Bolivia-to-Brazil pipeline, which was reclassified as held for sale as at 31 December 2012. The sale of the Bolivia-to-Brazil pipeline completed in January 2013.

As at 31 December 2011, assets held for sale included BG Group's interest in the Santa Rita and San Lorenzo power stations in the Philippines. In May 2012, the Group disposed of its interest in the two power stations to its partner, First Gen Corporation, for net cash proceeds of $360 million. This resulted in a pre and post-tax profit of $252 million.

As at 31 December 2011, assets held for sale also included other intangible assets which were subject to a sale and purchase agreement signed in 2011. The disposal did not complete and these assets were no longer classified as held for sale as at 31 December 2012. There was no significant impact on the results of operations in the current or prior years.

18 BORROWINGS

The Group's treasury policy, capital management and other borrowings information, disclosed in the cash flow and financing and capital sections on page 29 of the Financial review, form part of this note.

GROSS BORROWINGS

The Group as at 31 December	**2012 $m**	2011 $m
Amounts falling due within one year		
Commercial paper and bonds	**1 008**	921
Bank loans and overdrafts	**–**	188
Obligations under finance leases	**56**	51
	1 064	1 160
Amounts falling due after more than one year		
Bonds and other loans	**11 871**	10 558
Bank loans	**250**	1 067
Obligations under finance leases	**2 322**	2 352
	14 443	13 977
Gross borrowings	**15 507**	15 137

NET BORROWINGS[(a)]

The Group as at 31 December	**2012 $m**	2011 $m
Amounts falling due within one year		
Cash and cash equivalents	**4 434**	3 601
Borrowings	**(1 064)**	(1 160)
Commodity contracts and other derivative financial instruments[(b)]	**(71)**	(45)
	3 299	2 396
Amounts falling due after more than one year		
Borrowings	**(14 443)**	(13 977)
Non-current assets[(c)]	**195**	193
Commodity contracts and other derivative financial instruments[(b)]	**325**	52
	(13 923)	(13 732)
Net borrowings	**(10 624)**	(11 336)

(a) Net borrowings are defined on page 141.
(b) Commodity contracts and other derivative financial instruments comprise treasury financial derivatives of $254m (2011: $7m).
(c) Non-current assets comprise a finance lease receivable of $195m (2011: $193m). See Note 19, page 111.

The following table shows a reconciliation of net borrowings:

The Group	**2012 $m**	2011 $m
Net borrowings as at 1 January	**(11 336)**	(6 973)
Net increase in cash and cash equivalents	**891**	1 111
Cash inflow from changes in borrowings	**(1 189)**	(5 452)
Inception of finance lease liabilities/assets	**2**	59
Foreign exchange and other re-measurements	**(39)**	(94)
Disposal of gross borrowings (See Note 7, page 102)	**1 133**	–
Movement in net borrowings classified as held for sale	**(86)**	13
Net borrowings as at 31 December	**(10 624)**	(11 336)

As at 31 December 2012, BG Group's share of the net borrowings in joint ventures and associates amounted to approximately $1.3bn, including BG Group shareholder loans of approximately $0.7bn. These net borrowings are included in BG Group's share of the net assets in joint ventures and associates.

18 BORROWINGS CONTINUED

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	
	2012 $m	2011 $m	**2012 $m**	2011 $m
Within one year	**56**	52	**1 064**	1 160
Between one and two years	**60**	147	**60**	1 348
Between two and three years	**413**	65	**413**	204
Between three and four years	**812**	427	**812**	490
Between four and five years	**67**	830	**1 002**	905
After five years	**11 424**	9 304	**12 156**	11 030
	12 832	10 825	**15 507**	15 137

For the purpose of the table above, borrowings with an initial maturity within one year, such as commercial paper, are treated as floating rate.

As part of its interest rate risk strategy, the Group has entered into swaps. The disclosure above is presented after the effect of these swaps. Further information on the fair value of the swaps is included in note 19, page 111.

The effective post-swap interest rates as at 31 December 2012 were between 1% and 11.3% (2011: between 0.5% and 12%). For amounts falling due within one year the effective post-swap interest rates were between 1% and 11.3% (2011: between 0.5% and 12%). Post-swap fixed-rate borrowings mature between 2013 and 2072 (2011: mature between 2012 and 2041).

Obligations under finance leases pre-swap	Minimum lease payments		Obligations under finance leases	
Amounts due:	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Within one year	**141**	149	**56**	51
Between one and five years	**583**	605	**257**	237
After five years	**2 775**	3 008	**2 065**	2 115
Less: future finance charges	**(1 121)**	(1 359)	**–**	–
	2 378	2 403	**2 378**	2 403

The Group has finance lease obligations in respect of LNG ships and infrastructure. These lease obligations expire between 2024 and 2037 (2011: expire between 2024 and 2037).

CURRENCY COMPOSITION OF THE GROUP'S BORROWINGS

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

	2012 $m	2011 $m
Currency:		
Pound Sterling	**4 780**	4 029
US Dollar	**6 666**	7 015
Euro	**3 993**	3 419
Brazilian Real	**–**	605
Other	**68**	69
	15 507	15 137

The disclosure above does not include the impact of certain currency swaps as these are separately recognised under IAS 39 and presented in note 19, page 111. As at 31 December 2012, the Group had swapped $2 395m (2011: $2 173m) of Pound Sterling borrowings into US Dollars, $3 993m (2011: $3 419m) of Euro borrowings into US Dollars, $nil (2011: $399m) of US Dollar borrowings into Brazilian Reais and $54m (2011: $56m) 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:

Expiring:	**2012 $m**	2011 $m
Between one and two years	**–**	2 320
Between three and four years	**2 180**	–
Between four and five years	**3 540**	2 180
After five years	**–**	49
	5 720	4 549

19 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 fixed and floating composition of its debt. The Group enters into currency exchange rate derivatives to hedge certain currency cash flows and to adjust the currency composition of its assets and liabilities. Certain agreements are combined currency and interest swap transactions, described as cross-currency interest rate derivatives. The Group's policy is to enter into interest or currency exchange rate derivatives only where these are matched by an underlying asset, liability or transaction.

Further information on treasury risks is contained in the Principal risks and uncertainties section, pages 32 to 37.

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 gas sales contracts fall within the scope of IAS 39. These contracts include pricing terms that 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.

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 other comprehensive income 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 within Other commodity derivatives at fair value, with movements in fair value recognised in the income statement.

Further information on commodity price exposure is contained in the Principal risks and uncertainties section, pages 32 to 37.

AMOUNTS RECOGNISED IN RESPECT OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Group as at 31 December	**2012**		2011	
Included in the balance sheet:	**Assets $m**	**Liabilities $m**	Assets $m	Liabilities $m
Interest rate derivatives	**210**	**(161)**	188	(131)
Currency exchange rate derivatives	**23**	**(41)**	94	(102)
Cross-currency interest rate derivatives	**351**	**(128)**	141	(183)
Gas contracts	**–**	**(249)**	1	(375)
Other commodity derivatives	**77**	**(191)**	273	(1 250)
	661	**(770)**	697	(2 041)

As at 31 December 2012, the Group also held non-derivative available-for-sale financial assets of $58m (2011: $47m) which are recognised in the balance sheet at fair value.

As at 31 December 2012, the Group had deposited cash of $279m (2011: $758m) and received cash of $57m (2011: $19m) 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.

	2012		2011	
Expiring:	**Assets $m**	**Liabilities $m**	Assets $m	Liabilities $m
Within one year	**129**	**(423)**	331	(1 345)
Between one and five years	**243**	**(221)**	123	(542)
After five years	**289**	**(126)**	243	(154)
	661	**(770)**	697	(2 041)

19 FINANCIAL INSTRUMENTS CONTINUED

AMOUNTS RECOGNISED IN RESPECT OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE CONTINUED

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

	2012				2011			
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	**997**	**2 164**	**2 024**	**5 185**	396	2 320	2 814	5 530
Currency exchange rate derivatives	**1 861**	**355**	**–**	**2 216**	2 542	1 612	–	4 154
Cross-currency interest rate derivatives	**2 105**	**1 746**	**4 034**	**7 885**	393	2 317	4 214	6 924
Other commodity derivatives	**22 882**	**6 926**	**370**	**30 178**	28 479	9 231	516	38 226

The notional principal amounts of long-term gas contracts are $524m (2011: $658m). 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 risks that the Group is exposed to from their use.

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 of financial assets and liabilities measured at fair value.

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 prices and 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 of commodity contracts 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, certain gas contracts are categorised as Level 3 in the fair value hierarchy. One of the assumptions used for their valuation is that observable commodity prices are liquid for four years (2011: four years). Beyond this period a $101 per barrel (2011: $103 per barrel) Brent oil price, subject to annual inflation of 3.0% (2011: 3.0%), has been used. The fair values of the long-term commodity contracts are then calculated using the market yield curve at the balance sheet date.

As at 31 December 2012, the potential pre-tax change in the fair value of gas contracts, assuming a $10 per barrel change in the Brent price assumption, was $4m (2011: $19m).

The Group	Financial assets				Financial liabilities			
as at 31 December 2012	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	–	210	–	210	–	(161)	–	(161)
Currency exchange rate derivatives	–	23	–	23	–	(41)	–	(41)
Cross-currency interest rate derivatives	–	351	–	351	–	(128)	–	(128)
Long-term gas contracts	–	–	–	–	–	(243)	(6)	(249)
Other commodity derivatives	4	52	21	77	(116)	(52)	(23)	(191)
	4	**636**	**21**	**661**	**(116)**	**(625)**	**(29)**	**(770)**

19 FINANCIAL INSTRUMENTS CONTINUED

Fair value measurement hierarchy continued

as at 31 December 2011	Financial assets Level 1 $m	Financial assets Level 2 $m	Financial assets Level 3 $m	Financial assets Total $m	Financial liabilities Level 1 $m	Financial liabilities Level 2 $m	Financial liabilities Level 3 $m	Financial liabilities Total $m
Interest rate derivatives	–	188	–	188	–	(131)	–	(131)
Currency exchange rate derivatives	–	94	–	94	–	(102)	–	(102)
Cross-currency interest rate derivatives	–	141	–	141	–	(183)	–	(183)
Long-term gas contracts	–	–	1	1	–	(305)	(70)	(375)
Other commodity derivatives	19	221	33	273	(517)	(708)	(25)	(1 250)
	19	**644**	**34**	**697**	**(517)**	**(1 429)**	**(95)**	**(2 041)**

As at 31 December 2012, the Group also held available-for-sale financial assets of $58m (2011: $47m), 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 gas contracts 2012 $m	Long-term gas contracts 2011 $m	Other commodity derivatives 2012 $m	Other commodity derivatives 2011 $m	Total 2012 $m	Total 2011 $m
Fair value as at 1 January	**(69)**	(26)	**8**	(4)	**(61)**	(30)
Total gains or losses recognised in the income statement	**(7)**	(52)	**(4)**	5	**(11)**	(47)
Reclassification to Level 2	**70**	–	**6**	1	**76**	1
Settlements	**–**	7	**(12)**	6	**(12)**	13
Currency translation adjustments	**–**	2	**–**	–	**–**	2
Fair value as at 31 December	**(6)**	(69)	**(2)**	8	**(8)**	(61)

Reclassifications to Level 2 during 2012 and 2011 are attributable to contracts now maturing within the four-year liquid period for observable commodity prices.

Total gains or losses recognised in the income statement are presented in Other operating income. All gains or losses for the period are related to financial assets and liabilities held at 31 December 2012. All gains or losses for the period ended 31 December 2011 related to financial assets and liabilities held at 31 December 2011. A reasonably foreseeable change in the valuation assumptions underlying other commodity derivatives classified as Level 3 would not significantly change their fair value measurement.

FAIR VALUE ADJUSTMENTS ON FINANCIAL INSTRUMENTS

The Group Included in the income statement[a]:	2012 $m	2011 $m
Interest rate and currency exchange rate derivatives not in a designated hedge relationship	**(113)**	(111)
Interest rate derivatives designated as fair value hedges	**15**	209
Cross-currency interest rate derivatives designated as fair value hedges	**(44)**	52
Commodity derivatives designated as fair value hedges	**16**	19
Ineffectiveness on cash flow hedges	**3**	20
Ineffectiveness on net investment hedges	**(6)**	26
Long-term gas contracts (see note 1, page 93)	**140**	55
Other commodity derivatives not in a designated hedge relationship	**120**	100
Continuing operations	**131**	370
Discontinued operations	**8**	(29)
	139	341

(a) Includes $20m gain (2011: $16m) recognised as Other operating income within Business performance.

Fair value gains of $8m (2011: $20m) on available-for-sale financial assets are included within other comprehensive income. For further information, see note 13, page 106.

19 FINANCIAL INSTRUMENTS CONTINUED

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 in the Principal risks and uncertainties section, pages 32 to 37.

Fair value hedges

As at 31 December 2012, 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 2012 is $72m (2011: $128m). During 2012, adjustments of $(12)m (2011: $(290)m) 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 and currency exposure on Group debt. As at 31 December 2012, an unrealised pre-tax loss of $228m (2011: $777m) was deferred in other comprehensive income in respect of effective cash flow hedges. The hedged transactions are expected to occur within 25 years (2011: 26 years) and the associated gains and losses deferred in other comprehensive income will be released to the income statement as the underlying transaction crystallises. As at 31 December 2012, deferred pre-tax losses of $96m (2011: $605m) 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 2012 is $(210)m (2011: $(801)m). During 2012, certain forecast commodity sales for which cash flow hedge accounting was used were no longer expected to occur. This resulted in the transfer of a pre-tax gain of $47m (2011: $29m) from other comprehensive income to the income statement.

Page 88 identifies the amounts that have been transferred from other comprehensive income 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 2012, 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 other comprehensive income to offset the gains or losses arising on the retranslation of net investments in foreign subsidiaries. The pre-tax gain on effective hedging instruments deferred within other comprehensive income as at 31 December 2012 is $331m (2011: $296m loss). The fair value of financial instruments designated as hedges of net investments in foreign operations outstanding as at 31 December 2012 is $(4 885)m (2011: $(4 838)m).

FINANCIAL ASSETS (EXCLUDING NON-INTEREST BEARING SHORT-TERM RECEIVABLES)

The Group's financial assets consist of cash and cash equivalents of $4 434m (2011: $3 601m), loans made to joint ventures and associates of $715m (2011: $1 467m), a finance lease receivable of $195m (2011: $193m), available-for-sale assets of $58m (2011: $47m), other long-term investments of $nil (2011: $1m), receivables due within one year of $813m (2011: $215m) and receivables due after more than one year of $599m (2011: $443m).

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

The Group	**2012**				2011			
	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	**–**	**6**	**335**	**341**	–	14	349	363
US Dollar	**254**	**5 963**	**2**	**6 219**	245	4 987	13	5 245
Other	**–**	**191**	**63**	**254**	–	283	76	359
	254	**6 160**	**400**	**6 814**	245	5 284	438	5 967

Within floating rate financial assets, cash and cash equivalents earn interest at the relevant market rates. Periodic interest rate determinations in respect of floating rate loans to joint ventures and associates generally comprise London Interbank Offered Rate (LIBOR) plus or minus an agreed margin. As at 31 December 2012, floating rate receivables and loans to joint ventures and associates had an effective interest rate of between 1.46% and 4.11% (2011: between 0.84% and 4.12%) and are expected to expire between 2015 and 2020 (2011: between 2012 and 2023). The maturity profile of non-interest bearing 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 2012, fixed rate assets include a finance lease receivable associated with an onshore Liquefied Petroleum Gas (LPG) plant in Tunisia of $195m (2011: $193m) which expires in 2016 (2011: expires in 2016) and has an effective interest rate of 14.2% (2011: 14.5%) and other fixed rate receivables of $59m (2011: $52m) which are expected to expire in 2022 (2011: expire in 2022) and have effective interest rates of 6% (2011: 6%).

19 FINANCIAL INSTRUMENTS CONTINUED

FINANCIAL ASSETS (EXCLUDING NON-INTEREST BEARING SHORT-TERM RECEIVABLES) CONTINUED

Finance lease receivable

	Minimum lease payments		Net investment in finance leases	
Amounts receivable:	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Within one year	**39**	40	**8**	5
Between one and five years	**300**	319	**187**	188
After five years	**–**	–	**–**	–
Less: future finance charges	**(144)**	(166)	**–**	–
	195	193	**195**	193

FAIR VALUES OF OTHER FINANCIAL INSTRUMENTS

The following financial instruments are measured at historic or amortised cost:

The Group	**2012**		2011	
	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	**(1 064)**	**(1 064)**	(1 160)	(1 160)
Long-term borrowings	**(14 443)**	**(15 911)**	(13 977)	(14 774)
Cash and cash equivalents	**4 434**	**4 434**	3 601	3 601
Short-term receivables	**3 182**	**3 182**	3 218	3 218
Short-term payables	**(1 599)**	**(1 599)**	(1 754)	(1 754)
Other financial liabilities	**(2)**	**(2)**	(62)	(62)
Other financial assets	**1 567**	**1 701**	2 151	2 304

The fair value of cash and cash equivalents (current asset investments and cash at bank and in hand), short-term receivables and short-term payables approximates book value due to the short maturity of these instruments. The fair values of 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.

THE COMPANY

The Company's financial instruments are all denominated in Pounds Sterling and consist of short-term receivables of $3 750m (2011: $4 381m), short-term payables of $40m (2011: $55m) and cash and cash equivalents of $2m (2011: $2m). Short-term receivables comprise amounts owed by Group undertakings, of which $3 746m (2011: $4 376m) earns interest at LIBOR minus an agreed margin. The remaining short-term receivables of $4m (2011: $5m) were non-interest bearing. Short-term payables are contractually payable within one year and are non-interest bearing. The fair value of the financial instruments approximates book value.

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 in the Principal risks and uncertainties section, pages 32 to 37. Additional quantitative information and market sensitivities in relation to certain principal market risks are included in the following sections.

19 FINANCIAL INSTRUMENTS CONTINUED

FINANCIAL RISK FACTORS CONTINUED

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 reduce liquidity risk. The Group proposes to meet its financing commitments from the operating cash flows of the business, existing cash and cash equivalent investments, funding from ongoing portfolio rationalisation plus borrowings from a range of sources which are expected to include money and debt capital markets, government lending agencies and existing committed lines of credit. The undiscounted contractual cash flows receivable/(payable) under financial instruments as at the balance sheet date are as follows:

The Group as at 31 December 2012	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	(1 686)	(667)	(3 890)	(27 501)	(33 744)
Short-term payables	(1 599)	–	–	–	(1 599)
Other financial liabilities	–	–	–	(2)	(2)
	(3 285)	(667)	(3 890)	(27 503)	(35 345)
Outflows from derivative financial instruments					
Currency and interest rate derivatives	(2 013)	(449)	(196)	(690)	(3 348)
Gross-settled commodity derivatives	(1 185)	(197)	(306)	–	(1 688)
Net-settled commodity derivatives	(149)	(30)	(8)	–	(187)
	(3 347)	(676)	(510)	(690)	(5 223)
Non-derivative financial assets and inflows from derivative financial instruments	11 202	1 708	1 160	1 629	15 699
Total as at 31 December 2012	**4 570**	**365**	**(3 240)**	**(26 564)**	**(24 869)**

The Group as at 31 December 2011	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	(1 759)	(1 878)	(3 099)	(15 655)	(22 391)
Short-term payables	(1 754)	–	–	–	(1 754)
Other financial liabilities	–	–	–	(62)	(62)
	(3 513)	(1 878)	(3 099)	(15 717)	(24 207)
Outflows from derivative financial instruments					
Currency and interest rate derivatives	(2 885)	(1 935)	(637)	(1 611)	(7 068)
Gross-settled commodity derivatives	(1 124)	(230)	(20)	–	(1 374)
Net-settled commodity derivatives	(532)	(15)	(1)	–	(548)
	(4 541)	(2 180)	(658)	(1 611)	(8 990)
Non-derivative financial assets and inflows from derivative financial instruments	12 205	3 564	2 154	3 128	21 051
Total as at 31 December 2011	**4 151**	**(494)**	**(1 603)**	**(14 200)**	**(12 146)**

Credit risk

Credit risk is managed on a Group basis. Credit risk in financial instruments arises from cash and cash equivalents and derivative financial instruments, as well as credit exposures of commercial counterparties including exposures in respect of outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum long-term credit rating of 'A' are normally accepted as a counterparty and credit limits are established based primarily on the credit ratings, although other credit assessment factors that determine credit quality including the external environment are taken into account when considering the awarding of or maintenance of a limit. Similarly if a commercial counterparty is independently credit rated, the rating is primarily used to determine credit quality and limits with other relevant assessment factors also considered. If there is no independent credit rating, credit quality is assessed in accordance with credit policies which take account of the counterparty's financial position and other similar factors. Exposures are monitored by the relevant Group businesses and at a Group level.

As at 31 December 2012, the Group's maximum credit risk exposure (after the impact of any netting arrangements) under interest rate related derivatives was $78m (2011: $84m), currency derivatives $295m (2011: $66m) and commodity related derivatives $43m (2011: $209m). The Group's credit risk exposure under receivables and other financial assets is represented by the book values. The Group considers its portfolio for credit related concentration risks where risks may result from strategic investments, commercial relationships or sales of product in a variety of locations. Mitigation may be considered where appropriate to diversify or reduce risk profile. Following an agreement signed with Egypt General Petroleum Corporation (EGPC) in 2011, the repayment of the Group's receivable balance in respect of domestic gas sales is partly linked to production levels, in particular the volume of gas allocated for export as LNG. As at 31 December 2012, this receivable balance was $1.3bn, of which $0.6bn was overdue. Under repayment terms recently negotiated with EGPC, and based upon post-investment forecast production levels, the existing $1.3bn receivable balance is expected to be fully recovered by the end of 2015, and all future receivables would be current by 2017.

19 FINANCIAL INSTRUMENTS CONTINUED

FINANCIAL RISK FACTORS CONTINUED

However, the recoverability of the receivable balances within these timeframes depends on the business environment in Egypt, together with the outcome of negotiations with EGPC, reservoir performance, the Group's continued investment plans and the successful operational delivery of those plans.

Market risk

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

The Group	Market movement		Business performance		Disposals, re-measurements and impairments		Other comprehensive income	
	2012	2011	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
UK interest rates	**+ 150 basis points**	+ 150 basis points	**(7)**	(7)	**(17)**	(6)	**(246)**	(185)
US interest rates	**+ 100 basis points**	+ 100 basis points	**19**	15	**142**	(1)	**225**	309
US$/UK£ exchange rates	**+ 20 cents**	+ 20 cents	**–**	–	**(681)**	(31)	**1 019**	847
UK gas prices	**+ 15 pence/therm**	+ 15 pence/therm	**–**	(7)	**(123)**	(206)	**–**	–
US gas prices	**+ 1 $/mmbtu**	+ 1 $/mmbtu	**(1)**	(10)	**62**	57	**(1)**	43
JCC/Brent prices	**+ 10 $/bbl**	+ 10 $/bbl	**–**	–	**(27)**	(16)	**–**	(120)
The Company								
UK interest rates	**+ 150 basis points**	+ 150 basis points	**43**	49	**–**	–	**–**	–

The above sensitivity analysis is based on the Group's financial assets, liabilities and hedge designations as at the balance sheet date and indicates 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 year's 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 from derivative instruments designated as cash flow or net investment hedges are considered fully effective and are recorded in other comprehensive income;

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

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

20 TRADE AND OTHER PAYABLES

	The Group		The Company	
as at 31 December	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Amounts falling due within one year				
Trade payables	**1 210**	1 332	**–**	–
Amounts owed to Group undertakings	**–**	–	**40**	50
Amounts owed to joint ventures and associates (see note 25, page 122)	**88**	85	**–**	–
Other payables[a]	**301**	337	**–**	5
Accruals and deferred income	**3 702**	3 588	**–**	–
	5 301	5 342	**40**	55
Amounts falling due after more than one year				
Other payables	**2**	62	**–**	–
Accruals and deferred income	**121**	10	**–**	–
	123	72	**–**	–
Total payables	**5 424**	5 414	**40**	55

(a) As at 31 December 2012, Group payables include $26m (2011: $40m) relating to share-based payment transactions, of which $8m (2011: $14m) relates to awards that have already vested, and $135m (2011: $126m) relates to amounts provided in 2012 for payments to eligible employees under bonus schemes, including the BG Group Annual Incentive Scheme (AIS).

21 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

The Group	Decommissioning		Other		Total	
	2012 $m	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
As at 1 January	**3 128**	1 424	**475**	388	**3 603**	1 812
Charge for the year	**–**	33	**134**	144	**134**	177
Unwinding of discount	**95**	57	**9**	9	**104**	66
Additions	**545**	1 111	**30**	28	**575**	1 139
Change in discount rate	**–**	541	**–**	–	**–**	541
Business combinations	**–**	51	**–**	–	**–**	51
Disposals	**(46)**	–	**(30)**	–	**(76)**	–
Foreign exchange and other adjustments	**82**	(31)	**–**	(12)	**82**	(43)
Amounts used	**(37)**	(45)	**(203)**	(45)	**(240)**	(90)
Unused provisions credited to the income statement	**–**	(13)	**–**	(37)	**–**	(50)
As at 31 December	**3 767**	3 128	**415**	475	**4 182**	3 603

Provisions expected to fall due within one year amount to $258m (2011: $199m).

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 that current circumstances indicate BG Group will ultimately bear this cost. The payment dates of total expected future decommissioning costs are uncertain, but are currently anticipated to be between 2013 and 2060.

OTHER
The balance as at 31 December 2012 includes provisions for onerous contracts of $149m (2011: $165m), field-related payments of $53m (2011: $70m), insurance costs of $52m (2011: $53m) and costs associated with acquisitions, disposals and restructuring of $122m (2011: $106m). The payment dates are uncertain, but are expected to be between 2013 and 2018.

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 in Interconnector (UK) Limited. The obligation associated with these contracts extends to 2018.

22 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:

The Group	**2012 $m**	2011 $m
Net deferred tax liability as at 1 January	**3 372**	2 616
(Disposals)/business combinations	**(125)**	24
Charge for the year[(a)]	**209**	835
Charge/(credit) on fair value movements taken to other comprehensive income	**298**	(74)
Charge to equity in respect of share-based payments	**24**	12
Currency translation adjustments and other movements	**94**	(41)
Transferred to assets held for sale	**(14)**	–
Net deferred tax liability as at 31 December	**3 858**	3 372

(a) Includes $34m credit (2011: $100m) for discontinued operations.

22 DEFERRED TAX CONTINUED

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

The Group	Accelerated capital allowances $m	Deferred petroleum revenue tax $m	Provisions $m	Retirement benefit obligations $m	Unused tax losses $m	Other temporary differences $m	Total $m
Deferred tax assets							
As at 1 January 2011	361	–	(36)	(50)	(580)	(213)	(518)
Charge/(credit) for the year	300	–	(46)	15	(273)	(27)	(31)
Credit to equity	–	–	–	–	–	(68)	(68)
Currency translation adjustments and other movements	(17)	–	5	–	20	20	28
As at 31 December 2011	644	–	(77)	(35)	(833)	(288)	(589)
Charge/(credit) for the year	(12)	–	(69)	10	(285)	(179)	(535)
Charge to equity	–	–	–	–	–	328	328
Currency translation adjustments and other movements	(8)	–	11	–	5	10	18
As at 31 December 2012	**624**	**–**	**(135)**	**(25)**	**(1 113)**	**(129)**	**(778)**
Deferred tax liabilities							
As at 1 January 2011	5 406	146	(437)	(27)	(1 888)	(66)	3 134
Business combinations	6	18	–	–	–	–	24
Charge/(credit) for the year	1 628	9	(659)	(4)	(56)	(52)	866
Charge to equity	–	–	–	–	–	6	6
Currency translation adjustments and other movements	(35)	(2)	17	4	1	(54)	(69)
As at 31 December 2011	7 005	171	(1 079)	(27)	(1 943)	(166)	3 961
Disposals	–	–	19	27	–	(171)	(125)
Transferred to assets held for sale	(14)	–	–	–	–	–	(14)
Charge/(credit) for the year	922	30	(47)	–	(46)	(115)	744
Credit to equity	–	–	–	–	–	(6)	(6)
Currency translation adjustments and other movements	129	8	(37)	–	(12)	(12)	76
As at 31 December 2012	**8 042**	**209**	**(1 144)**	**–**	**(2 001)**	**(470)**	**4 636**
Net deferred tax liability as at 31 December 2012	**8 666**	**209**	**(1 279)**	**(25)**	**(3 114)**	**(599)**	**3 858**
Net deferred tax liability as at 31 December 2011	7 649	171	(1 156)	(62)	(2 776)	(454)	3 372

The amount of the deferred tax asset of $778m (2011: $589m) expected to be recovered after more than 12 months is $573m (2011: $562m). The deferred tax liability of $4 636m (2011: $3 961m) is shown after the offset of certain deferred tax assets relating to the same fiscal authority; the liability prior to such offset is $8 515m (2011: $7 610m). The net amount expected to be settled after more than 12 months is $4 551m (2011: $3 943m).

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 approximately $5.9bn (2011: $5.0bn). No liability has been recognised in respect of these differences either because no liability is expected to arise on distribution under applicable tax legislation or 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 deductable 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. To determine the future taxable income, reference is made to the latest available profit forecasts. This requires assumptions regarding future profitability and is therefore inherently uncertain. The Group has unrecognised deductible temporary differences of $896m (2011: $1 004m) and unrecognised tax losses of $2 802m (2011: $1 380m) to carry forward against future taxable income. To the extent unutilised, $283m of these losses will expire by 2017. In addition, the Group has unrecognised capital losses of $183m (2011: $162m); these tax losses can only be offset against specific types of future capital gains. The Group also has unrecognised overseas tax credits of $393m (2011: $521m).

As at 31 December 2012, the Company had a deferred tax asset of $12m (2011: $9m).

23 CALLED UP SHARE CAPITAL

as at 31 December	Number of shares			
	2012 m	2011 m	**2012 $m**	2011 $m
Issued and fully paid up				
Equity:				
Ordinary shares of 10p each	**3 614**	3 611	**578**	577

During the year, the Company allotted 3.44m ordinary shares of 10p each (2011: 4.98m ordinary shares) with an aggregate nominal value of $543 363 (2011: $794 870) in connection with exercises of share options issued under the Company Share Option Scheme (CSOS), the Sharesave Scheme and the Sharesave Plan. The consideration received on these allotments amounted to $36m (2011: $48m).

At 31 December 2012, the Company held 215.2m (2011: 217.0m) of its own shares. The market value of these shares as at 31 December 2012 was $3 544m (2011: $4 643m). The Company made the following transactions in respect of its own shares:

(i) During 2012, the Company purchased 0.7m (2011: 1.1m) of its own ordinary shares for the Long-Term Incentive Plan (LTIP). The shares purchased, for aggregate consideration of $16m (2011: $26m) including transaction costs, had a nominal value of $103 910 (2011: $174 031) and represented less than 0.1% (2011: less than 0.1%) of the called up share capital at 31 December 2012.

(ii) During 2012, the Company transferred 2.4m (2011: 3.6m) of its ordinary shares to eligible employees in accordance with the terms of the Share Incentive Plan and the LTIP. The shares transferred had a nominal value of $378 561 (2011: $589 872) and represented approximately 0.1% (2011: 0.1%) of the called up share capital at 31 December 2012. The cost of shares transferred was $38m (2011: $45m).

(iii) The maximum number of shares held during the year was 217.3m ordinary shares (2011: 220.6m), representing approximately 6.0% (2011: 6.1%) of the called up share capital at 31 December 2012, and having a nominal value of $34 719 201 (2011: $35 815 859).

24 COMMITMENTS AND CONTINGENCIES

A) CAPITAL EXPENDITURE

As at 31 December 2012, the Group had contractual commitments for future capital expenditure amounting to $8 807m (2011: $11 866m) of which $8 268m related to acquisition of property, plant and equipment (2011: $11 272m) and $539m related to intangible exploration assets (2011: $594m). As at 31 December 2012, BG Group's joint ventures and associates had placed contracts for capital expenditure, BG Group's share of which amounted to $5 647m (2011: $3 545m).

Included in the amount for contractual commitments for future capital expenditure is $2 181m (2011: $3 397m) relating to commitments under operating leases split between amounts due within one year $1 050m (2011: $1 469m) and amounts due between one and five years $1 131m (2011: $1 928m).

As at 31 December 2012, the contractual commitments for future capital expenditure related to the Company were $nil (2011: $nil).

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 2012, certain petroleum licences and contractual agreements in which BG 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 firm commitments is estimated to be $858m (2011: $579m).

D) LEASE COMMITMENTS

Commitments under operating leases to be expensed to the income statement as at 31 December were as follows:

The Group	Land and buildings		Vessels and other		Total	
	2012 $m	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Amounts due:						
Within one year	**90**	83	**511**	336	**601**	419
Between one and five years	**256**	249	**2 988**	1 976	**3 244**	2 225
After five years	**297**	311	**3 809**	1 578	**4 106**	1 889
	643	643	**7 308**	3 890	**7 951**	4 533

Certain expenditure under operating leases is recovered from third parties under partnership agreements and is excluded from the table above.

Included within Land and buildings are two operating leases over BG Group's headquarters located in the UK. The leases expire in 2026. The Group also sub-leases a building at the Lake Charles LNG facility to third parties. Total future minimum lease rentals receivable by the Group under this lease were $2m as at 31 December 2012 (2011: $2m).

24 COMMITMENTS AND CONTINGENCIES CONTINUED

D) LEASE COMMITMENTS CONTINUED

Included within Vessels and other are operating leases over LNG ships, oil tankers and floating production storage and offloading. The last of these leases expires in 2031 (2011: expires in 2031). The Group occasionally sub-leases one of its vessels to third parties (2011: one vessel). Total future minimum lease rentals receivable by the Group under this lease were $nil as at 31 December 2012 (2011: $1m).

As at 31 December 2012, the Company had $nil commitments under operating leases (2011: $nil).

E) LEGAL PROCEEDINGS

Italian criminal charges were brought in 2008 against certain current and 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, was also 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 were also brought against certain former directors of Brindisi LNG, a wholly owned subsidiary of BG Italia, who were 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 Brindisi court. This decision was challenged by the Supreme Court, who remitted the matter back to the Brindisi Court. In May 2012, the Brindisi Court declared these charges to be time-barred.

The Brindisi Court also issued its verdict in relation to the other criminal charges. The charges against BG Italia were declared time-barred. A former BG director was convicted of abusive land occupation and sentenced to five months imprisonment (although the sentence is suspended subject to appeal). The project site has been confiscated (although it remains seized subject to appeal). BG Italia submitted an appeal in October 2012 as did the public prosecutor.

The Municipality of Brindisi, Province of Brindisi and Region of Puglia and three groups of environmentalists separately commenced civil claims seeking damages against the accused individuals and against BG Italia. These claims were brought within the framework of the criminal case and were rejected by the Brindisi court in April 2012. BG Group is aware that the Region of Puglia has filed an appeal but is not aware of any other civil claimant having filed an appeal. To date, no date for an appeal has been fixed.

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. The Article 8 authorisation remains suspended. In 2008, BG Group submitted an EIA. The EIA was re-published in 2009. On 1 July 2010, a positive EIA decree was issued, subject to certain conditions. Several parties have challenged this EIA approval and the hearing required as a result has been postponed to an unconfirmed date.

There are various other 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 proceedings cannot yet be quantified but the Board of BG Group has in any event decided not to pursue the Brindisi LNG regasification terminal project.

BG Karachaganak Ltd, as one of the Karachaganak Contracting Companies (KCC), and the Republic of Kazakhstan (ROK) had been involved in various arbitration proceedings concerning certain taxes, fines and penalties paid by KCC and Karachaganak Petroleum Operating B.V. as well as certain unresolved items of expenditure incurred by the KCC. These arbitration proceedings have now been settled by entering into a Settlement Agreement dated 14 December 2011 and completed 28 June 2012. BG Group's interest in the project reduced from 32.5% to 29.25% as a result.

Two separate tax deficiency notices have been issued against Petrobras (in December 2009) based on alleged irregularities in connection with the import of equipment and rigs on behalf of the BM-S-9 consortium (Petrobras (45% – Operator), BG E&P Brasil (30%) and Repsol YPF Brasil (25%)). BG Group's potential liability arises from indemnity provisions in favour of Petrobras, as set out in the Joint Operating Agreement.

The first tax deficiency notice was issued due to the São Paulo State Tax Authority's allegation that Petrobras cannot enjoy lower tax rates in the importation of the Stena Drillmax rig because the rig was not disembarked and cleared in a São Paulo state port. Petrobras challenged this decision through the administrative courts but the appeal was rejected. Petrobras filed a lawsuit before the judicial branch and, on 25 October 2011, the court declared that the São Paulo State Tax Authority was not competent to decide unilaterally where customs clearance takes place or to consider if the Consortium would be entitled to the special tax treatment. This ruling, the first in the Judicial Courts, was a positive decision for the Consortium. As expected, the São Paulo State Tax Authority has appealed the judicial decision and a response is awaited within the next three years.

The second tax deficiency notice was issued by the São Paulo Tax Authority reflecting their view that Petrobras should have recorded transfers of goods to and from a rig by issuing invoices (for the purposes of allowing authorities to monitor taxable transactions) as if the offshore rig and the onshore base were two distinct branches of Petrobras. As such, the authorities claim that transfers of goods to and from the Petrobras-affiliated "branches" should attract a transfer tax (equivalent to VAT).

Petrobras challenged this deficiency notice before the administrative courts and, on 23 March 2010, an unfavourable decision was issued. This decision has been appealed by Petrobras, the outcome of which may be received later in 2013. If the appeal by Petrobras is rejected, it is anticipated that judicial proceedings will be brought in a manner similar to the first tax deficiency notice referred to above. It is expected that this matter may also take up to five years to be resolved.

24 COMMITMENTS AND CONTINGENCIES CONTINUED

E) LEGAL PROCEEDINGS CONTINUED

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

The Company and its subsidiaries are, or may from time to time be, in connection with current or past operations, involved in a number of legal or arbitration proceedings, including, for example, claims, suits, actions, investigations and/or inquiries relating to commercial, tax, environmental or other matters, with third parties or governmental or regulatory authorities. While the outcome of some of these matters cannot readily be foreseen, it is currently considered that they will be resolved without material effect on the net asset position as set out in these Financial Statements.

F) OTHER CONTINGENT LIABILITIES

The amount of other contingent liabilities as at 31 December 2012 (mainly the provision of guarantees, indemnities, contingent decommissioning obligations or warranties to third parties and various legal or arbitration proceedings in connection with the current and prior operations of the Group) amounted to $5 037m (2011: $3 871m), of which $194m (2011: $287m) related to the Company. BG Group's share of other contingencies in respect of its joint ventures and associates amounted to $nil (2011: $nil).

25 RELATED PARTY TRANSACTIONS

In the normal course of business BG Group provides goods and services to, and receives goods and services from, its joint ventures and associates.

The Group received and incurred the following income and charges from its joint ventures and associates:

for the year ended 31 December	**2012**		2011	
	Income $m	**Charges $m**	Income $m	Charges $m
LNG cargo purchases, sales and other related costs	**123**	**(876)**	141	(864)
Shipping and other transportation costs	**97**	**(130)**	28	(95)
	220	**(1 006)**	169	(959)

BG Group provides certain guarantees in respect of its obligations to its joint ventures and associates, and its share of obligations undertaken by its joint ventures and associates, in the normal course of business.

As at 31 December 2012, a debtor balance of $45m (2011: $40m) (see note 15, page 107) and a creditor balance of $88m (2011: $85m) (see note 20, page 117) were outstanding with these parties.

In addition, BG Group provides financing to some of these parties by way of loans. As at 31 December 2012, loans of $715m (2011: $1 467m) were due from joint ventures and associates. These loans are accounted for as part of BG Group's investment in joint ventures and associates and disclosed in note 13, page 106. Interest of $18m (2011: $23m) was charged on these loans during the year at interest rates of between 1.40% and 4.33% (2011: 0.84% and 6.92%). The maximum debt outstanding during the year was $1 467m (2011: $1 474m).

As at 31 December 2012, loans of $nil (2011: $92m) were due to joint venture companies. Interest on the loan of $1m (2011: $5m) was paid during the year at an interest rate of 5.8% (2011: 5.8%).

BG Group has a finance lease arrangement with a joint venture company. As at 31 December 2012, the obligation was $140m (2011: $144m). Interest of $9m (2011: $9m) was paid during the year in respect of this lease. The lease expires in 2027.

William Backhouse, the son of Peter Backhouse, a Non-Executive Director, is employed by BG International Limited, a wholly owned subsidiary of BG Group plc. 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.

As at 31 December 2012, a debtor balance of $3 750m (2011: $4 381m) (see note 15, page 107) and a creditor balance of $40m (2011: $50m) (see note 20, page 117) were outstanding between BG Group plc and other Group undertakings. In 2012, BG Group plc received dividends of $nil (2011: $1 258m) from BG Energy Holdings Limited, its subsidiary undertaking.

BG Group plc grants equity instruments to subsidiaries' employees in respect of equity-settled employee share schemes. In 2012, the fair value of equity instruments granted under these schemes and charged to the income statement was $74m (2011: $77m).

26 PENSIONS AND POST-RETIREMENT BENEFITS

A number of the Group's UK employees participate in the BG Pension Scheme (BGPS), a defined benefit registered pension plan established under trust. The Trustee is BG Group Pension Trustees Limited. The BGPS 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 that, together with the specified contributions payable by the employees and returns on the BGPS's assets, are expected to be sufficient to fund the benefits payable.

For the year ended 31 December 2012, the employers' contribution rate in respect of most BGPS members was effectively 35.2% of pensionable pay (excluding plan expenses which were 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.

The Group has been consulting BGPS employee members about a proposal to close the BGPS to future accrual of benefits on 30 November 2013. The consultation period ended on 18 March 2013.

A full independent actuarial valuation of the BGPS for funding purposes as at 31 March 2011 is currently underway. The previous actuarial valuation, as at 31 March 2008, showed that the aggregate market value of the plan assets at 31 March 2008 was £577m, representing some 83% of the accrued liabilities. The Group made payments of £27m in 2009, 2010, 2011 and 2012 and, under the current schedule of contributions, is due to make two further payments of £27m in 2013 and 2014 in order to reduce the plan's deficit. Based upon the contributions currently agreed between the Trustee and the Company following the 2008 actuarial valuation, aggregate Company contributions for the year ending 31 December 2013 (including the £27m deficit reduction contribution) are expected to be £63m.

The BG Supplementary Benefits Scheme (BGSBS) provides benefits broadly in excess of the 'lifetime allowance'. This defined benefit plan is an unfunded, non-registered arrangement. If the proposed closure of the BGPS goes ahead, benefit accrual in the BGSBS will also cease on the same date. The Group also had an unfunded defined benefit post-retirement employee benefit plan for healthcare in respect of employees of Comgás until November 2012 when it completed the sale of its entire holding in the business.

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 (BGRBP). 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 BGRBP, either directly or via salary sacrifice, and the additional employer's contribution is currently 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 BGRBP and the related life assurance and income protection benefits has been included in the amounts recognised in the consolidated income statement.

The Group also has a number of smaller defined contribution and defined benefit plans outside the UK which are not material in Group terms.

Valuations of plan assets and expected liabilities as at 31 December 2012 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 (before deducting plan assets); and

b. 10% of the fair value of any plan assets.

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 fair value of plan assets, the present value of plan liabilities and the net balance sheet liability were as follows:

as at 31 December	**2012 $m**	2011 $m
Fair value of plan assets	**1 598**	1 289
Present value of liabilities	**(1 886)**	(1 725)
Deficit in plans	**(288)**	(436)
Unrecognised net loss	**189**	222
Net balance sheet liability	**(99)**	(214)

26 PENSIONS AND POST-RETIREMENT BENEFITS CONTINUED

DEFINED BENEFIT OBLIGATION

Movements in the present value of the Defined Benefit Obligation (DBO) during the period were as follows:

	2012 $m	2011 $m
Reconciliation of the present value of the DBO		
Present value of DBO as at 1 January	**1 725**	1 635
Movement in year:		
Current service cost	**68**	79
Interest cost	**90**	97
Employee contributions	**1**	1
Actuarial losses/(gains)	**83**	(26)
Benefit payments	**(43)**	(32)
Settlement associated with Comgás disposal	**(108)**	–
Foreign exchange movements	**70**	(29)
Present value of DBO as at 31 December	**1 886**	1 725

As at 31 December 2012, $1 816m of the DBO relates to funded defined benefit plans (2011: $1 554m) and $70m relates to wholly unfunded defined benefit plans (2011: $171m).

The valuations as at 31 December were based on the following assumptions:

	2012 BGPS and BGSBS %	2011 BGPS and BGSBS %	2011 Comgás healthcare plan[a] %
Rate of price inflation and benefit increases[b]	**3.0**	3.1	4.5
Future increases in earnings	**4.0**	4.1	n/a
Discount rate	**4.6**	5.0	10.3
Healthcare cost trend rate	**n/a**	n/a	7.7

(a) The Group disposed of its entire interest in Comgás in November 2012.
(b) Rate of increase of deferred pensions and pensions in payment in excess of any Guaranteed Minimum Pension element.

The assumptions set out in the table above are those applicable to the currency in which the liabilities of each plan are denominated. In the case of the BGPS and BGSBS this is Pounds Sterling and in the case of the Comgás healthcare plan this is Brazilian Reais.

If the discount rate used for the valuation of the BGPS and BGSBS was reduced by 0.1% to 4.5%, the defined benefit obligation would increase by $38m and the service cost for 2013 would increase by $2m.

In determining the defined benefit obligation as at 31 December 2012 for the BGPS and BGSBS, mortality assumptions are based on the 'Self Administered Pension Schemes' (SAPS) S1 series (light) tables with a 105% multiplier issued by the Institute and Faculty of Actuaries, appropriate to each member's year of birth, with an allowance for projected longevity improvements in line with the CMI's 'core projection' model (2010 version), with a long-term rate of improvement of 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 10 years time are as follows:

as at 31 December	**Life expectancy of pensioners (years)**	
	2012	**2022**
Male age 60	**28.2**	**29.0**
Male age 65	**23.5**	**24.2**
Female age 60	**29.3**	**30.1**
Female age 65	**24.6**	**25.3**

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 BGPS and BGSBS would increase by $42m and the service cost for 2013 would increase by $2m.

26 PENSIONS AND POST-RETIREMENT BENEFITS CONTINUED

PLAN ASSETS

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

	2012 $m	2011 $m
Reconciliation of the fair value of plan assets		
Fair value of plan assets as at 1 January	**1 289**	1 290
Movement in year:		
Expected return on plan assets	**91**	100
Actuarial gains/(losses)	**91**	(174)
Company contributions	**103**	114
Employee contributions	**1**	1
Benefit payments	**(43)**	(32)
Foreign exchange movements	**66**	(10)
Fair value of plan assets as at 31 December	**1 598**	1 289

As at 31 December, the fair value of plan assets and expected rates of return were as follows:

	2012			2011		
	Expected rate of return[(a)] %	Percentage of plan assets %	Value %	Expected rate of return[(a)] %	Percentage of plan assets %	Value %
Equities	**7.2**	**61**	**982**	7.3	60	776
Absolute return strategies	**7.2**	**16**	**254**	7.3	17	221
Index-linked gilts	**2.9**	**5**	**80**	2.9	5	63
Corporate bonds	**4.6**	**12**	**186**	5.0	11	147
Property	**6.7**	**6**	**91**	6.8	6	75
Money market funds and cash	**2.9**	**–**	**5**	2.9	1	7
Fair value of plan assets			**1 598**			1 289

(a) Long-term expected rate of return.

The expected rate of return on plan assets has been determined following advice from the funded plan's 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 4.1% (a premium of 4.2% 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 2012 was 6.6%.

The actual return on plan assets was $182m (2011: $(74)m).

INCOME STATEMENT

The following amounts have been recognised in the consolidated income statement in the year to 31 December:

	2012 $m	2011 $m
Amounts recognised in the consolidated income statement		
Operating costs:		
Current service cost	**68**	79
Recognised actuarial loss/(gain)	**3**	(1)
Costs in respect of BGRBP defined contribution plan	**23**	20
Total charge to operating costs	**94**	98
Net finance costs:		
Expected return on plan assets	**(91)**	(100)
Interest on plan liabilities	**81**	86
Total credit to finance costs	**(10)**	(14)
Recognised actuarial loss from discontinued operations	**–**	3
Interest on plan liabilities from discontinued operations	**9**	11
Total included within employee costs	**93**	98

26 PENSIONS AND POST-RETIREMENT BENEFITS CONTINUED

FIVE YEAR HISTORY

The history of experience adjustments is as follows:

for the year ended 31 December	**2012 $m**	2011 $m	2010 $m	2009 $m	2008 $m
Present value of defined benefit obligations	**(1 886)**	(1 725)	(1 635)	(1 665)	(1 055)
Fair value of plan assets	**1 598**	1 289	1 290	1 073	728
Deficit in the plans	**(288)**	(436)	(345)	(592)	(327)
Experience gains/(losses) on plan assets	**91**	(174)	35	104	(314)
Experience gains/(losses) on plan liabilities	**23**	(14)	50	2	–

27 NOTES TO THE CASH FLOW STATEMENTS

CASH GENERATED BY OPERATIONS

	The Group		The Company	
for the year ended 31 December	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Profit before taxation[a]	**7 928**	7 550	**18**	1 283
Finance income	**(245)**	(204)	**(45)**	(49)
Finance costs	**407**	303	**–**	–
Share of post-tax results from joint ventures and associates	**(311)**	(289)	**–**	–
Operating profit	**7 779**	7 360	**(27)**	1 234
Depreciation of property, plant and equipment	**2 525**	2 142	**–**	–
Amortisation of other intangible assets	**68**	149	**–**	–
Share-based payments	**73**	72	**13**	13
Dividends received	**–**	–	**–**	(1 258)
Fair value movements in commodity-based contracts	**(241)**	(105)	**–**	–
Profits and losses on disposal of non-current assets and impairments[b]	**519**	482	**–**	–
Unsuccessful exploration expenditure written off	**339**	293	**–**	–
Decrease in provisions for liabilities and retirement benefit obligations	**(171)**	(46)	**–**	–
Movements in working capital:				
Increase in inventories	**(38)**	(53)	**–**	–
Increase in trade and other receivables	**(60)**	(1 435)	**–**	–
(Decrease)/increase in trade and other payables	**(78)**	914	**–**	–
Cash generated by operations	**10 715**	9 773	**(14)**	(11)

The cash flows above are inclusive of discontinued operations (see note 7, page 102).

(a) Profit before taxation from discontinued operations was $1 562m (2011: $313m).
(b) Profits and losses on disposal of non-current assets and impairments include a profit from discontinued operations of $1 132m (2011: $68m loss).

28 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 is included in the Annual Return of BG Group plc filed with the Registrar of Companies.

PRINCIPAL SUBSIDIARY UNDERTAKINGS

as at 31 December 2012	Country of incorporation	Location of operation	Activity	Group holding %[a]
BG International (AUS) Limited Partnership	Australia	Australia	Exploration and production	100.0
QCLNG Train 2 Pty Limited	Australia	Australia	LNG manufacture	100.0
QCLNG Common Facilities Company Pty Limited	Australia	Australia	LNG manufacture	100.0
QGC (Infrastructure) Pty Limited	Australia	Australia	Exploration and production	100.0
QGC Pty Limited (QGC)	Australia	Australia	Exploration and production	100.0
QGC Train 1 Pty Limited	Australia	Australia	LNG manufacture	100.0
BG E&P Brasil Ltda.	Brazil	Brazil	Exploration and production	100.0
BG Bolivia Corporation	Cayman Islands	Bolivia	Exploration and production	100.0
BG Exploration and Production India Limited	Cayman Islands	India	Exploration and production	100.0
BG Egypt S.A.	Cayman Islands	Egypt	Exploration and production	100.0
BG Delta Limited	England and Wales	Egypt	Exploration and production	100.0
BG Rosetta Limited	England and Wales	Egypt	Exploration and production	100.0
BG Energy Capital plc	England and Wales	UK	Financing company	100.0
BG Energy Holdings Limited[b]	England and Wales	UK	Group holding company	100.0
BG Gas Marketing Limited	England and Wales	UK[c]	LNG marketing	100.0
BG Hasdrubal Limited	England and Wales	Tunisia	Exploration and production	100.0
BG International Limited	England and Wales	UK[c]	Holding company/Exploration and production	100.0
BG International (CNS) Limited	England and Wales	UK	Exploration and production	100.0
BG International (NSW) Limited	England and Wales	UK	Exploration and production	100.0
BG Karachaganak Limited	England and Wales	Kazakhstan	Holding company/Exploration and production	100.0
BG North Sea Holdings Limited	England and Wales	UK	Holding company/Exploration and production	100.0
BG Trinidad and Tobago Limited	England and Wales	Trinidad and Tobago	Exploration and production	100.0
BG Tunisia Limited	England and Wales	Tunisia	Exploration and production	100.0
Methane Services Limited	England and Wales	UK[c]	LNG shipping	100.0
BG Norge Limited	England and Wales	UK and Norway	Exploration and production	100.0
BG Tanzania Limited	England and Wales	Tanzania	Exploration and production	100.0
BG Asia Pacific Pte. Limited	Singapore	Singapore[c]	Exploration and production	100.0
BG Energy Finance, Inc.	USA	USA	Financing company	100.0
BG Energy Merchants, LLC	USA	USA	Gas trading	100.0
BG LNG Services, LLC	USA	USA	LNG regasification	100.0
BG LNG Trading, LLC	USA	UK[c]	LNG trading	100.0
BG Production Company (PA), LLC	USA	USA	Exploration and production	100.0
BG US Production Company, LLC	USA	USA	Exploration and production	100.0

(a) There is no difference between the Group holding of ordinary shares and the Group's share of net assets attributable to equity shareholders.
(b) Shares are held by the Company; others are held by subsidiary undertakings.
(c) This is the primary country of operation; however the company also operates across several other countries.

JOINT VENTURES AND ASSOCIATES

as at 31 December 2012	Country of incorporation and location of 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
Mahanagar Gas Limited	India	Gas distribution	89 341 600 shares of Rupees 10	49.8
TGGT Holdings, LLC	USA	Gas distribution	$40 000 000[b]	50.0
Associates				
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
Guará B.V.	Netherlands[c]	Leasing	18 000 shares of €1	30.0
Tupi B.V.	Netherlands[c]	Leasing	18 000 shares of €1	25.0
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) 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 initial contributions of EXCO Operating Company, LP and BG US Gathering Company, LLC.
(c) Guará B.V. and Tupi B.V. are incorporated in the Netherlands and operate in Brazil.

SUPPLEMENTARY INFORMATION – GAS AND OIL (UNAUDITED)

On 20 December 2007, BG Group ceased to be a United States Securities and Exchange Commission (SEC) registered company and the Group's SEC reporting obligations also ceased with effect from that date. BG Group continues voluntarily to use the SEC definition of proved reserves to report proved gas and oil reserves and disclose certain unaudited supplementary information associated with the Group's consolidated subsidiaries detailed on pages 128 to 134. BG Group also now uses SEC definitions (introduced by the SEC in 2009) for probable reserves.

BG Group's strategy aims to connect competitively priced gas to high-value markets. Hydrocarbon reserves, and gas in particular, are developed in relation to the markets that they are intended to supply. Information in this section is therefore grouped as shown below to reflect the nature of the markets supplied by BG Group.

- UK.
- Atlantic Basin – Canada, Egypt, Nigeria, Trinidad and Tobago and the USA.
- Asia and the Middle East – Areas of Palestinian Authority, Australia, China, India, Kazakhstan, Oman and Thailand.
- Rest of the World – Algeria, Bolivia, Brazil, Italy, Kenya, Madagascar, Norway, Tanzania, Tunisia, and Uruguay.

The Corporate Reserves Group (CRG) is a central multidisciplinary group of reserves experts with an average of over 20 years experience in the oil and gas industry which provides an independent review of all reserves and discovered resources bookings and revisions proposed by regions and assets to the Reserves Committee which in turn reports to the Audit Committee. The Head of the Corporate Reserves Group, Dr. Carolina Coll, has more than 25 years experience in the oil and gas industry. She has a degree in Physics and a PhD in petroleum engineering. She is a member of the Society of Petroleum Engineers Oil and Gas Reserves Committee and a member of the Expert Group on Resource Classification of the United Nations Economic Commission for Europe.

Total additions and revisions to proved reserves during the year were 424 mmboe. This includes revisions due to new data and field performance updates (94 mmboe increase), extensions, discoveries and reclassifications (397 mmboe increase), acquisitions and disposals (3 mmboe decrease) and the net effect of price movements (64 mmboe decrease). Production in the period was 241 mmboe.

Gas and oil reserves cannot be measured exactly since estimation of reserves involves subjective judgement. Therefore, all estimates are subject to revision. Changes in gas and oil prices in fields subject to Production Sharing Contracts (PSCs) may result in changes to entitlements and therefore proved reserves.

Proved reserves
BG Group utilises the SEC definition of proved reserves.

Proved reserves are those quantities of oil and gas that, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations.

Proved developed reserves are those reserves that can be expected to be recovered through existing wells and with existing equipment and operating methods. Proved undeveloped reserves comprise total proved reserves less total proved developed reserves.

Probable reserves
BG Group utilises the SEC definition of probable reserves.

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

Probable developed reserves are those reserves that can be expected to be recovered through existing wells and with existing equipment and operating methods. Probable undeveloped reserves comprise total probable reserves less total probable developed reserves.

Discovered resources
Discovered resources are defined by BG Group as the best estimate of recoverable hydrocarbons where commercial and/or technical maturity is such that project sanction is not expected within the next three years.

Risked exploration
Risked exploration resources are defined by BG Group as the best estimate (mean value) of recoverable hydrocarbons in a prospect multiplied by the 'chance of success'.

Total resources
Total resources are defined by BG Group as the aggregate of proved and probable reserves plus discovered resources and risked exploration. Total resources may also be referred to as total reserves and resources.

A) RESERVES

ESTIMATED NET PROVED RESERVES OF NATURAL GAS

	UK bcf	Atlantic Basin bcf	Asia and Middle East bcf	Rest of World bcf	Total bcf
As at 31 December 2009	930	4 330	4 069	1 852	11 181[(a)]
Movement during the year:					
Revisions of previous estimates[(b)]	30	(67)	(159)	401	205
Extensions, discoveries and reclassifications	29	498	786	90	1 403
Production	(127)	(566)	(229)	(111)	(1 033)
Acquisitions of reserves-in-place	–	69	–	–	69
Disposals of reserves-in-place	–	(27)	(113)	–	(140)
	(68)	(93)	285	380	504
As at 31 December 2010	862	4 237	4 354	2 232	11 685[(a)]
Movement during the year:					
Revisions of previous estimates[(b)]	100	486	(77)	339	848
Extensions, discoveries and reclassifications	3	256	731	300	1 290
Production	(99)	(610)	(225)	(107)	(1 041)
Acquisitions of reserves-in-place	70	33	–	–	103
Disposals of reserves-in-place	–	–	(31)	–	(31)
	74	165	398	532	1 169
As at 31 December 2011	936	4 402	4 752	2 764	12 854[(a)]
Movement during the year:					
Revisions of previous estimates[(b)]	(22)	(516)	87	(93)	(544)
Extensions, discoveries and reclassifications	(1)	79	821	59	958
Production	(87)	(612)	(240)	(124)	(1 063)
Acquisitions of reserves-in-place	–	–	–	–	–
Disposals of reserves-in-place	–	–	(22)	–	(22)
	(110)	(1 049)	646	(158)	(671)
As at 31 December 2012	**826**	**3 353**	**5 398**	**2 606**	**12 183[(a)]**

Note: Conversion factor of 6 bcf of gas to 1 mmboe.

(a) Estimates of proved natural gas reserves at 31 December 2012 include fuel gas of 1 013 bcf (2011: 829 bcf; 2010: 702 bcf; 2009: 655 bcf).
(b) Includes effect of oil and gas price changes on PSCs.

ESTIMATED NET PROVED DEVELOPED RESERVES OF NATURAL GAS

	UK bcf	Atlantic Basin bcf	Asia and Middle East bcf	Rest of World bcf	Total bcf
As at 31 December 2009	685	2 394	2 820	812	6 711
As at 31 December 2010	640	2 099	2 469	776	5 984
As at 31 December 2011	728	2 103	2 426	892	6 149
As at 31 December 2012	**680**	**2 088**	**2 360**	**1 194**	**6 322**

ESTIMATED NET PROBABLE RESERVES OF NATURAL GAS

	UK bcf	Atlantic Basin bcf	Asia and Middle East bcf	Rest of World bcf	Total bcf
Probable developed reserves of natural gas					
As at 31 December 2009	338	1 189	126	441	2 094
As at 31 December 2010	264	881	21	296	1 462
As at 31 December 2011	203	873	7	239	1 322
As at 31 December 2012	**171**	**545**	**256**	**272**	**1 244**
Probable undeveloped reserves of natural gas					
As at 31 December 2009	–	386	6 018	2 165	8 569
As at 31 December 2010	71	1 002	6 717	2 630	10 420
As at 31 December 2011	97	1 280	7 479	1 586	10 442
As at 31 December 2012	**270**	**1 436**	**6 668**	**1 895**	**10 269**
Total estimated net probable reserves of natural gas[(a)]					
As at 31 December 2009	338	1 575	6 144	2 606	10 663
As at 31 December 2010	335	1 883	6 738	2 926	11 882
As at 31 December 2011	300	2 153	7 486	1 825	11 764
As at 31 December 2012	**441**	**1 981**	**6 924**	**2 167**	**11 513**

(a) Estimates of probable natural gas reserves at 31 December 2012 include fuel gas of 470 bcf (2011: 693 bcf; 2010: 934 bcf; 2009: 595 bcf).

A) RESERVES CONTINUED

ESTIMATED NET PROVED RESERVES OF OIL

'Oil' includes crude oil, condensate and natural gas liquids.

	UK mmbbl	Atlantic Basin mmbbl	Asia and Middle East mmbbl	Rest of World mmbbl	Total mmbbl
As at 31 December 2009	171.7	10.2	344.0	210.5	736.4
Movement during the year:					
Revisions of previous estimates[a]	(2.0)	0.6	7.1	235.3	241.0
Extensions, discoveries and reclassifications	9.6	0.9	–	21.3	31.8
Production	(27.9)	(2.0)	(28.2)	(5.4)	(63.5)
Acquisitions of reserves-in-place	–	0.2	–	–	0.2
Disposals of reserves-in-place	–	(0.1)	–	–	(0.1)
	(20.3)	(0.4)	(21.1)	251.2	209.4
As at 31 December 2010	151.4	9.8	322.9	461.7	945.8
Movement during the year:					
Revisions of previous estimates[a]	31.9	0.9	(35.2)	198.2	195.8
Extensions, discoveries and reclassifications	0.3	(0.4)	0.5	21.1	21.5
Production	(21.8)	(1.8)	(28.5)	(8.4)	(60.5)
Acquisitions of reserves-in-place	2.8	–	–	–	2.8
Disposals of reserves-in-place	–	–	–	–	–
	13.2	(1.3)	(63.2)	210.9	159.6
As at 31 December 2011	164.6	8.5	259.7	672.6	1 105.4
Movement during the year:					
Revisions of previous estimates[a]	7.5	(0.5)	17.1	96.3	120.4
Extensions, discoveries and reclassifications	1.4	–	0.2	235.6	237.2
Production	(20.8)	(1.7)	(27.5)	(13.3)	(63.3)
Acquisitions of reserves-in-place	–	–	–	–	–
Disposals of reserves-in-place[b]	–	–	0.8	–	0.8
	(11.9)	(2.2)	(9.4)	318.6	295.1
As at 31 December 2012	**152.7**	**6.3**	**250.3**	**991.2**	**1 400.5**

(a) Includes effect of oil and gas price changes on PSCs.
(b) Karachaganak Settlement Agreement (disposal) resulted in a minor addition to liquids.

ESTIMATED NET PROVED DEVELOPED RESERVES OF OIL

	UK mmbbl	Atlantic Basin mmbbl	Asia and Middle East mmbbl	Rest of World mmbbl	Total mmbbl
As at 31 December 2009	135.5	5.8	285.3	20.5	447.1
As at 31 December 2010	113.6	5.7	277.5	27.8	424.6
As at 31 December 2011	136.8	4.1	238.1	62.5	441.5
As at 31 December 2012	**126.1**	**6.2**	**230.5**	**95.0**	**457.8**

ESTIMATED NET PROBABLE RESERVES OF OIL

	UK mmbbl	Atlantic Basin mmbbl	Asia and Middle East mmbbl	Rest of World mmbbl	Total mmbbl
Probable developed reserves of oil					
As at 31 December 2009	66.8	4.0	3.4	20.1	94.3
As at 31 December 2010	49.3	2.9	4.3	14.1	70.6
As at 31 December 2011	41.2	3.2	0.2	30.9	75.5
As at 31 December 2012	**36.6**	**1.8**	**2.6**	**22.3**	**63.3**
Probable undeveloped reserves of oil					
As at 31 December 2009	–	0.2	153.0	1 505.8	1 659.0
As at 31 December 2010	20.6	1.0	99.6	1 650.4	1 771.6
As at 31 December 2011	18.5	1.4	137.0	1 745.9	1 902.8
As at 31 December 2012	**27.0**	**8.3**	**75.0**	**1 666.1**	**1 776.4**
Total estimated net probable reserves of oil					
As at 31 December 2009	66.8	4.2	156.4	1 525.9	1 753.3
As at 31 December 2010	69.9	3.9	103.9	1 664.5	1 842.2
As at 31 December 2011	59.7	4.6	137.2	1 776.8	1 978.3
As at 31 December 2012	**63.6**	**10.1**	**77.6**	**1 688.4**	**1 839.7**

B) STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

The following tables set out the standardised measure of discounted future net cash flows relating to proved gas and oil reserves and report the causes of changes in the standardised measure of the cash flows relating to reserves. Future cash inflows have been computed by reference to the Group's estimate of future production of net proved gas and oil reserves at the end of each year and estimates of third-party prices. Prices for each year are calculated using a 12-month average price in line with SEC methodology. The standardised measure of discounted future net cash flow information presented below is not intended to represent the replacement cost or fair market value of the Group's gas and oil properties. The disclosures shown are based on estimates of proved reserves, future production schedules and costs, which are inherently imprecise and subject to revision. The standardised measure is as follows:

	UK $bn	Atlantic Basin $bn	Asia and Middle East $bn	Rest of World $bn	Total $bn
As at 31 December 2010:					
Future cash inflows	18.63	14.33	31.19	48.07	112.22
Future production and development costs	(8.29)	(5.39)	(13.59)	(28.31)	(55.58)
Future income tax expenses	(5.72)	(2.73)	(6.26)	(5.54)	(20.25)
Future net cash flows	4.62	6.21	11.34	14.22	36.39
10% annual discount for estimated timing of cash flows	(1.24)	(2.24)	(6.05)	(8.15)	(17.68)
	3.38	3.97	5.29	6.07	18.71
As at 31 December 2011:					
Future cash inflows	27.72	18.18	44.06	88.55	178.51
Future production and development costs	(10.19)	(5.43)	(17.76)	(48.70)	(82.08)
Future income tax expenses	(11.76)	(4.19)	(8.44)	(12.00)	(36.39)
Future net cash flows	5.77	8.56	17.86	27.85	60.04
10% annual discount for estimated timing of cash flows	(1.43)	(2.68)	(10.28)	(16.06)	(30.45)
	4.34	5.88	7.58	11.79	29.59
As at 31 December 2012:					
Future cash inflows	**25.89**	**11.22**	**49.03**	**112.64**	**198.78**
Future production and development costs	**(10.56)**	**(5.46)**	**(23.21)**	**(64.70)**	**(103.93)**
Future income tax expenses	**(10.14)**	**(2.13)**	**(7.07)**	**(12.17)**	**(31.51)**
Future net cash flows	**5.19**	**3.63**	**18.75**	**35.77**	**63.34**
10% annual discount for estimated timing of cash flows	**(1.25)**	**(1.24)**	**(11.37)**	**(20.15)**	**(34.01)**
	3.94	**2.39**	**7.38**	**15.62**	**29.33**

B) STANDARDISED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS CONTINUED

The following were the main sources of change in the standardised measure of discounted cash flows in the three accounting years ended 31 December 2012:

	2012 $bn	2011 $bn	2010 $bn
Standardised measure at the beginning of the year	**29.59**	18.71	14.10
Sale of gas and oil produced net of production costs and other operating costs[a]	**(8.98)**	(8.59)	(6.84)
Net changes in prices and production costs[b]	**(9.48)**	10.74	5.02
Extensions, discoveries, reclassifications and revisions to previous estimates	**17.14**	16.78	8.50
Changes in estimated future development costs	**(12.52)**	(7.61)	(5.63)
Development costs incurred in the period	**6.80**	5.97	4.07
Acquisitions of reserves-in-place	**–**	0.09	0.11
Disposals of reserves-in-place	**(0.52)**	(0.02)	(0.03)
Accretion of discount	**4.79**	2.91	2.20
Net change in income taxes	**2.45**	(9.32)	(2.74)
Other	**0.06**	(0.07)	(0.05)
Standardised measure at the end of the year[c]	**29.33**	29.59	18.71

(a) Production costs and other operating costs include lifting, tariff, insurance and royalty costs but not depreciation costs.
(b) Includes the effect of foreign exchange movements.
(c) Based on the following:

	2012	2011	2010
Brent oil price ($/bbl)	**112**	111	79
Henry Hub ($/mmbtu)	**2.86**	4.18	4.46
UK spot gas (p/therm)	**59.39**	55.02	42.97
US$/UK£ exchange rate	**1.59**	1.61	1.55

C) CAPITALISED COSTS

Capitalised costs incurred using the successful efforts method and net of depreciation were as follows:

	UK $m	Atlantic Basin $m	Asia and Middle East $m	Rest of World $m	Total $m
As at 31 December 2010:					
Proved gas and oil properties	6 985	8 476	11 927	5 323	32 711
Unproved gas and oil properties	215	2 015	2 080	1 158	5 468
	7 200	10 491	14 007	6 481	38 179
Accumulated depreciation	(4 703)	(2 722)	(1 882)	(1 144)	(10 451)
Net capitalised costs	2 497	7 769	12 125	5 337	27 728
As at 31 December 2011:					
Proved gas and oil properties	8 216	10 804	15 906	6 357	41 283
Unproved gas and oil properties	335	1 949	1 222	1 314	4 820
	8 551	12 753	17 128	7 671	46 103
Accumulated depreciation	(4 916)	(3 678)	(2 244)	(1 654)	(12 492)
Net capitalised costs	3 635	9 075	14 884	6 017	33 611
As at 31 December 2012:					
Proved gas and oil properties	**9 871**	**12 165**	**19 025**	**7 777**	**48 838**
Unproved gas and oil properties	**423**	**1 706**	**1 238**	**1 415**	**4 782**
	10 294	**13 871**	**20 263**	**9 192**	**53 620**
Accumulated depreciation	**(5 484)**	**(6 182)**	**(2 617)**	**(2 189)**	**(16 472)**
Net capitalised costs	**4 810**	**7 689**	**17 646**	**7 003**	**37 148**

The above table does not include the investment in the joint venture entity TGGT Holdings, LLC of $31m (2011: $592m; 2010: $457m). This company holds gas-gathering and transportation assets associated with the alliance with EXCO Resources, Inc.

D) COSTS INCURRED IN GAS AND OIL ACTIVITIES

Aggregate costs incurred under the historical cost convention, comprising amounts capitalised to exploration and development and amounts charged to the income statement in respect of exploration and appraisal, were as follows:

	UK $m	Atlantic Basin $m	Asia and Middle East $m	Rest of World $m	Total $m
Year ended 31 December 2010:					
Acquisition of properties:					
Proved	–	309	–	–	309
Unproved	–	1 124	–	1	1 125
Exploration	79	126	286	926	1 417
Development	331	1 549	1 471	719	4 070
Year ended 31 December 2011:					
Acquisition of properties:					
Proved	56	134	–	–	190
Unproved	–	291	2	–	293
Exploration	145	121	313	745	1 324
Development	823	1 711	2 371	1 066	5 971
Year ended 31 December 2012:					
Acquisition of properties:					
Proved	**–**	**–**	**–**	**–**	**–**
Unproved	**–**	**59**	**2**	**–**	**61**
Exploration	**156**	**168**	**260**	**575**	**1 159**
Development	**941**	**984**	**3 331**	**1 540**	**6 796**

The proportion of exploration costs capitalised in 2012 was 68.5% (2011: 73.2%; 2010: 73.0%).

The above table does not include additions to decommissioning provisions which amounted to $171m in 2012 (2011: $1 584m; 2010: $250m).

E) RESULTS OF OPERATIONS

The results of operations under the historical cost convention and in accordance with IFRS for the gas and oil producing activities (excluding disposals, re-measurements and impairments, other operating income, general office overheads and interest costs) were as follows:

	UK $m	Atlantic Basin $m	Asia and Middle East $m	Rest of World $m	Total $m
Year ended 31 December 2010:					
Revenues	3 004	1 750	2 596	1 208	8 558
Production costs	(455)	(245)	(501)	(185)	(1 386)
Other operating costs	–	(10)	(160)	(159)	(329)
Exploration expenses	(44)	(94)	(109)	(518)	(765)
Depreciation	(339)	(762)	(317)	(270)	(1 688)
Other costs	(55)	(117)	(145)	(212)	(529)
	2 111	522	1 364	(136)	3 861
Taxation	(1 093)	(388)	(556)	211	(1 826)
Results of operations	1 018	134	808	75	2 035
Year ended 31 December 2011:					
Revenues	3 179	2 232	3 487	1 743	10 641
Production costs	(503)	(281)	(579)	(248)	(1 611)
Other operating costs	–	(8)	(193)	(242)	(443)
Exploration expenses	(16)	(46)	(248)	(337)	(647)
Depreciation	(257)	(864)	(366)	(306)	(1 793)
Other costs	(119)	(145)	(284)	(299)	(847)
	2 284	888	1 817	311	5 300
Taxation	(1 436)	(487)	(781)	(52)	(2 756)
Results of operations	848	401	1 036	259	2 544
Year ended 31 December 2012:					
Revenues	**2 951**	**2 250**	**3 690**	**2 553**	**11 444**
Production costs	**(516)**	**(318)**	**(566)**	**(348)**	**(1 748)**
Other operating costs	**–**	**(6)**	**(227)**	**(484)**	**(717)**
Exploration expenses	**(86)**	**(46)**	**(184)**	**(368)**	**(684)**
Depreciation	**(340)**	**(1 019)**	**(450)**	**(368)**	**(2 177)**
Other costs	**(90)**	**(171)**	**(330)**	**(271)**	**(862)**
	1 919	**690**	**1 933**	**714**	**5 256**
Taxation	**(1 234)**	**(403)**	**(840)**	**(399)**	**(2 876)**
Results of operations	**685**	**287**	**1 093**	**315**	**2 380**

Net royalty payments are classified as Other operating costs in the table above.

Revenues, representing gas and oil sold, include intra-Group sales at contract prices of $663m for the year ended 31 December 2012 (2011: $928m; 2010: $777m).

The accretion interest expense resulting from changes in the liability for decommissioning due to the passage of time, which is not included in the table above, was $95m (2011: $57m; 2010: $49m).

HISTORICAL PRODUCTION (UNAUDITED)

	Gas production (net) bcf			Oil and liquids production (net) '000 barrels		
	2012	2011	2010	**2012**	2011	2010
Australia	**55.0**	45.5	46.0	**–**	–	30
Bolivia	**51.0**	34.4	31.7	**1 660**	1 100	1 010
Brazil	**8.5**	2.1	–	**7 870**	4 500	1 590
Canada	**–**	–	3.2	**–**	–	20
Egypt	**281.2**	290.0	317.4	**1 240**	1 090	1 160
India	**38.7**	46.1	47.4	**2 800**	3 500	3 250
Kazakhstan	**81.5**	84.6	87.0	**22 450**	23 280	23 310
Norway	**3.7**	–	–	**470**	–	–
Thailand	**65.0**	49.3	49.1	**2 270**	1 660	1 590
Trinidad and Tobago	**158.8**	161.0	177.1	**370**	590	690
Tunisia	**61.3**	70.7	79.5	**3 270**	2 850	2 750
UK	**86.7**	98.7	126.5	**20 790**	21 780	27 940
USA	**171.9**	159.4	68.7	**110**	130	120
Total[(a)]	**1 063.3**	1 041.8	1 033.6	**63 300**	60 480	63 460

	2012	2011	2010
Total production of gas, oil & liquids (mmboe)[(b)]	**240.5**	234.1	235.7

(a) Production volumes include fuel gas.
(b) Conversion factor of 6 bcf of gas to 1 mmboe.

FIVE-YEAR FINANCIAL SUMMARY (UNAUDITED)

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December	**2012 $m**	2011 Restated[a] $m	2010 Restated[a] $m	2009 Restated[a] $m	2008 Restated[a] $m
Group revenue and other operating income	**19 200**	17 849	13 710	13 167	20 503
Operating costs	**(11 358)**	(10 458)	(8 498)	(7 751)	(10 859)
Profits and losses on disposal of non-current assets and impairments	**(1 651)**	(414)	(333)	(214)	(41)
Operating profit	**6 191**	6 977	4 879	5 202	9 603
Finance income	**222**	174	164	114	511
Finance costs	**(336)**	(183)	(193)	(210)	(300)
Share of post-tax results from joint ventures and associates	**289**	269	260	239	206
Profit before tax	**6 366**	7 237	5 110	5 345	10 020
Taxation	**(3 057)**	(3 141)	(2 009)	(2 298)	(4 313)
Profit for the year from continuing operations	**3 309**	4 096	3 101	3 047	5 707
Profit for the year from discontinued operations	**1 304**	219	399	423	305
Profit for the year	**4 613**	4 315	3 500	3 470	6 012
Profit attributable to:					
Shareholders (earnings)	**4 519**	4 234	3 351	3 319	5 964
Non-controlling interest	**94**	81	149	151	48
	4 613	4 315	3 500	3 470	6 012
Earnings per ordinary share continuing operations (cents)					
Basic	**97.5**	120.8	91.7	90.6	170.4
Diluted	**96.9**	120.1	91.2	89.9	168.8
Earnings per ordinary share discontinued operations (cents)					
Basic	**35.6**	4.1	7.4	8.1	7.7
Diluted	**35.4**	4.0	7.3	8.0	7.6

CONSOLIDATED BALANCE SHEET

as at 31 December	**2012 $m**	2011 $m	2010 $m	2009 $m	2008 $m
Non-current assets	**53 112**	48 921	40 107	34 025	26 104
Current assets	**11 749**	12 216	9 965	8 417	9 834
Assets classified as held for sale	**386**	245	227	–	–
Total assets	**65 247**	61 382	50 299	42 442	35 938
Current liabilities	**(8 165)**	(9 085)	(8 886)	(8 313)	(9 328)
Non-current liabilities	**(23 830)**	(22 523)	(14 625)	(10 899)	(8 086)
Liabilities associated with assets classified as held for sale	**(158)**	(99)	(104)	–	–
Total liabilities	**(32 153)**	(31 707)	(23 615)	(19 212)	(17 414)
Net assets	**33 094**	29 675	26 684	23 230	18 524
Equity					
Total shareholders' equity	**33 037**	29 384	26 328	22 909	18 343
Non-controlling interest in equity	**57**	291	356	321	181
Total equity	**33 094**	29 675	26 684	23 230	18 524

OTHER INFORMATION

as at 31 December		**2012**	2011	2010	2009	2008
Net borrowings[b]	$m	**(10 624)**	(11 336)	(6 973)	(4 775)	(1 397)
Gearing ratio[c]	%	**24.2**	27.1	20.1	17.0	7.1
Debt/equity ratio[d]	%	**31.9**	37.3	25.2	20.4	7.7
Employee numbers (headcount)	thousands	**5.7**	6.6	6.2	6.2	5.9

(a) See note 1, page 93 and note 7, page 102.
(b) Net borrowings comprise cash and cash equivalents, finance leases, currency exchange rate and interest rate derivative financial instruments and short and long-term borrowings.
(c) Gearing ratio represents net borrowings as a percentage of total shareholders' funds (excluding balances associated with commodity financial instruments and related deferred tax) plus net borrowings.
(d) Debt/equity ratio represents net borrowings as a percentage of total shareholders' funds (excluding balances associated with commodity financial instruments and related deferred tax).

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
Cash generated by operations	**10 715**	9 773	8 370	7 597	11 858
Income taxes paid	**(2 720)**	(2 791)	(1 984)	(2 065)	(3 575)
Net cash inflow from operating activities	**7 995**	6 982	6 386	5 532	8 283
Cash flows from investing activities					
Dividends received	**151**	204	198	227	271
Proceeds from disposal of subsidiary undertakings and investments	**2 185**	84	468	–	30
Proceeds from disposal of property, plant and equipment and intangible assets	**754**	116	897	5	4
Purchase of property, plant and equipment and intangible assets	**(9 974)**	(10 300)	(8 397)	(6 767)	(5 415)
Loans to and repayments from joint ventures and associates	**698**	(51)	92	(101)	(230)
Interests in subsidiaries, joint ventures, associates and other investments	**(429)**	(246)	(529)	(1 094)	(3 254)
Other loan advances	**(280)**	–	–	–	–
Net cash outflow from investing activities	**(6 895)**	(10 193)	(7 271)	(7 730)	(8 594)
Cash flows from financing activities					
Net interest paid	**(541)**	(247)	(229)	(166)	(24)
Dividends paid	**(859)**	(772)	(680)	(633)	(667)
Dividends paid to non-controlling interest	**(18)**	(136)	(108)	(57)	(66)
Net proceeds from issue of new borrowings	**2 925**	6 392	3 559	2 904	542
Repayment of borrowings	**(1 736)**	(940)	(348)	(332)	(715)
Issue of shares	**36**	48	95	99	48
Movements in own shares	**(16)**	(23)	(2)	(4)	(392)
Net cash inflow/(outflow) from financing activities	**(209)**	4 322	2 287	1 811	(1 274)
Net increase/(decrease) in cash and cash equivalents	**891**	1 111	1 402	(387)	(1 585)

OTHER INFORMATION

for the year ended 31 December		2012 $m	2011 Restated[a] $m	2010 Restated[a] $m	2009 Restated[a] $m	2008 Restated[a] $m
Closing total equity		**33 094**	29 675	26 684	23 230	18 524
Less:						
Closing commodity financial instruments net of associated deferred tax		**(201)**	(757)	(958)	(165)	263
Closing net borrowings		**(10 624)**	(11 336)	(6 973)	(4 775)	(1 397)
Closing capital employed		**43 919**	41 768	34 615	28 170	19 658
Average capital employed[b]		**42 844**	38 192	31 392	23 914	17 349
Profit before tax[c]		**7 919**	7 591	6 137	5 517	9 841
Less: Finance (costs)/income on net borrowings		**(23)**	(60)	8	(21)	222
		7 896	7 531	6 145	5 496	10 063
Taxation applied at the Group's effective rate		**(3 514)**	(3 314)	(2 366)	(2 308)	(4 277)
Post-tax return		**4 382**	4 217	3 779	3 188	5 786
Pre-tax return on average capital employed[d]	%	**18.4**	19.7	19.6	23.0	58.0
Post-tax return on average capital employed[d]	%	**10.2**	11.0	12.0	13.3	33.4

(a) See note 1 page 93, and note 7, page 102.
(b) Average capital employed is calculated as the average of the opening and closing capital employed balances for the year.
(c) Profit before tax excludes disposals, re-measurements and impairments and includes share of pre-tax results from joint ventures and associates.
(d) Return on average capital employed represents profit (excluding disposals, re-measurements and impairments), excluding net finance income/costs on net borrowings, as a percentage of average capital employed. The above table presents this before and after taxation applied at the Group's effective tax rate.

KARACHAGANAK PROCESSING FACILITY, KAZAKHSTAN

BG Group, which has been active in Kazakhstan for 20 years, is joint operator of the super-giant Karachaganak gas and condensate field in Kazakhstan.

SHAREHOLDER INFORMATION

Shareholder information and glossary of terms.

PRESENTATION OF NON-GAAP MEASURES

BG Group publishes certain additional information in a non-statutory format in order to provide readers with an increased insight into the underlying performance of the business. The measures the Group uses are explained below.

Business performance
'Business performance' excludes discontinued operations and disposals, certain re-measurements and impairments (see below) as exclusion of these items provides a clear and consistent presentation of the underlying operating performance of the Group's ongoing business.

BG Group uses commodity instruments to manage price exposures associated with its marketing and optimisation activity. This activity enables the Group to take advantage of commodity price movements. It is considered more appropriate to include both unrealised and realised gains and losses arising from the mark-to-market of derivatives associated with this activity in 'Business performance'.

Disposals, certain re-measurements and impairments
BG Group's commercial arrangements for marketing gas include the use of long-term gas sales contracts. While the activity surrounding these contracts involves the physical delivery of gas, certain gas sales contracts are classified as derivatives under the rules of International Accounting Standard IAS 39, 'Financial Instruments: Recognition and Measurement', issued by the International Accounting Standards Board, and are required to be measured at fair value at the balance sheet date. Unrealised gains and losses on these contracts reflect the comparison between current market gas prices and the actual prices to be realised under the gas sales contracts and are disclosed separately as 'disposals, re-measurements and impairments'.

BG Group also uses financial instruments, including derivatives, to manage certain price exposures in respect of optimising the timing and location of its physical gas and LNG sales commitments. These instruments are also required to be measured at fair value at the balance sheet date under IAS 39 and where practical have been designated as formal hedges. However, IAS 39 does not always allow the matching of fair values to the economically hedged value of the related commodity, resulting in unrealised movements in fair value being recorded in the income statement. These movements in fair value, together with any unrealised gains and losses associated with discontinued hedge accounting relationships that continue to represent economic hedges, are disclosed separately as 'disposals, re-measurements and impairments'.

BG Group also uses financial instruments, including derivatives, to manage foreign exchange and interest rate exposure. These instruments are required to be recognised at fair value or amortised cost on the balance sheet in accordance with IAS 39. Most of these instruments have been designated either as hedges of foreign exchange movements associated with the Group's net investments in foreign operations, or as hedges of interest rate risk. Where these instruments represent economic hedges but cannot be designated as hedges under IAS 39, unrealised movements in fair value, together with foreign exchange movements associated with the underlying borrowings and foreign exchange movements on monetary items that form part of the Group's net investment in foreign operations, are recorded in the income statement and disclosed separately as 'disposals, re-measurements and impairments'.

Realised gains and losses relating to the instruments referred to above are included in Business performance. This presentation 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.

BG Group has also separately identified profits and losses associated with the disposal of non-current assets, impairments of non-current assets and certain other exceptional items, as they require separate disclosure in order to provide a clearer understanding of the results for the period.

For a reconciliation between the overall results and Business performance and details of disposals, re-measurements and impairments, see note 1, page 93, note 4, page 100 and note 9, page 103.

Joint ventures and associates
Under International Financial Reporting Standards, the results from jointly controlled entities (joint ventures) and associates, accounted for under the equity method, are required to be presented net of finance costs and tax on the face of the income statement. Given the relevance of these businesses within BG Group, the results of joint ventures and associates are presented before interest and tax, and after tax. This approach provides additional information on the source of BG Group's operating profits. For a reconciliation between operating profit and earnings, including and excluding the results of joint ventures and associates, see note 1, page 93.

Exchange rates and prices
BG Group may also disclose certain information, as indicated, at constant US$/UK£ exchange rates and upstream prices. The presentation of results in this manner is intended to provide additional information to explain further the underlying trends in the business. The disclosure re-calculates the current year profit on the basis that the US$/UK£ exchange rate and the upstream commodity prices were the same as in the previous year, providing a comparable base in respect of these two factors.

Net borrowings or funds and return on average capital employed
BG Group provides a reconciliation of net borrowings and an analysis of the amounts included within net borrowings as this is an important liquidity measure for the Group.

Return on average capital employed represents profit before tax (excluding disposals, re-measurements and impairments) plus net interest payable on net borrowings, as a percentage of average capital employed. Further information on these measures is provided on page 137.

GLOSSARY OF TERMS

REFERENCE CONDITIONS (2013)

- Brent Oil price real (1/1/2013): 2013: $100/bbl
- US Henry Hub real (1/1/2013): 2013: $3.5/mmbtu
- US/UK exchange rate of $1.6:£1
- US/AUD exchange rate of $1:$A1
- US/BRL exchange rate of $1:BRL1.90
- Prepared under International Financial Reporting Standards
- All production includes fuel gas

FOR THE PURPOSE OF THIS REPORT THE FOLLOWING DEFINITIONS APPLY:

'3D'	Three-dimensional seismic
'$' or 'US$'	US Dollars
'£' or 'UK£'	UK Pounds Sterling
'A$'	Australian Dollars
'ABI'	Association of British Insurers
'the Act'	The Companies Act 2006
'ADR'	American Depository Receipt
'AGM'	Annual General Meeting
'AIS'	Annual Incentive Scheme
'bbl'	Barrel
'bcf'	Billion cubic feet
'bcfd'	Billion cubic feet per day
'bcma'	Billion cubic metres per annum
'BG Group' or 'the Group'	BG Group plc and its subsidiary undertakings, joint ventures and associated undertakings
'BGRBP'	BG Group Retirement Benefits Plan
'BGSBS'	BG Supplementary Benefits Scheme
'billion' or 'bn'	One thousand million
'boe'	Barrels of oil equivalent. BG Group uses a conversion factor of 1 boe equals 6 000 cubic feet of natural gas
'boed'	Barrels of oil equivalent per day
'bopd'	Barrels of oil per day
'BRL'	Brazilian Reais
'CAGR'	Compound annual growth rate
'the Company'	BG Group plc
'CNOOC'	China National Offshore Oil Corporation
'CSOS'	Company Share Option Scheme
'delivered volumes'	Comprise all LNG volumes discharged in a given period, excluding LNG utilised by the ships
'Directors' report'	See Business review and Legal notice, inside front cover
'discovered resources'	Discovered resources are defined by BG Group as the best estimate of recoverable hydrocarbons where commercial and/or technical maturity is such that project sanction is not expected within the next three years.
'drill stem test'	A procedure for isolating and testing the area surrounding a well
'DST'	Drill stem test
'E&A'	Exploration and Appraisal
'E&P'	Exploration and Production
'E&Y'	Ernst & Young LLP
'EGPC'	Egypt General Petroleum Corporation
'EPS'	Earnings per share
'EPV'	Estimated present value
'EU'	European Union
'EWT'	Extended well test
'extended well test'	A test to evaluate production and characteristics of a reservoir
'FEED'	Front-end engineering and design
'Financial statements'	The Group and parent Company Financial statements for the year ended 31 December 2012 which comprise the principal accounting policies, the consolidated income statement, the consolidated statement of comprehensive income, the balance sheets, the statements of changes in equity, the cash flow statements, and the related notes
'FPSO'	Floating production, storage and offloading (vessel)
'GAAP'	Generally accepted accounting principles
'GEC'	Group Executive Committee
'GEMS'	Global Energy Marketing and Shipping
'GHG'	Greenhouse gas
'the Governance Code'	The UK Corporate Governance Code issued by the UK Financial Reporting Council
'HSSE'	Health, safety, security and environment
'IAS'	International Accounting Standard issued by the IASB
'IASB'	International Accounting Standards Board
'IFRIC'	International Financial Reporting Interpretations Committee
'IFRS'	International Financial Reporting Standard issued by the IASB
'kboed'	Thousand barrels of oil equivalent per day
'LIBOR'	London Interbank Offered Rate
'LNG'	Liquefied natural gas
'loaded volumes'	Comprise all LNG volumes loaded onto LNG ships and discharged in the applicable period. They also comprise LNG volumes utilised by the ships
'LPG'	Liquefied petroleum gas
'LTIP'	Long-Term Incentive Plan
'm'	Million
'managed volumes'	Comprise all LNG volumes contracted for purchase and having related revenue and other operating income recognised in the applicable period
'Management report'	See Other disclosures and inside front cover
'MGL'	Mahanagar Gas Ltd
'mmboe'	Million barrels of oil equivalent
'mmbopd'	Million barrels of oil per day
'mmbtu'	Million British thermal units
'mtpa'	Million tonnes per annum
'NCJV'	Non-controlled joint venture
'Net borrowings'	Comprise cash, current asset investments, finance lease liabilities/assets, currency and interest rate derivative financial instruments and short and long-term borrowings
'probable reserves'	See page 128
'proved reserves'	See page 128
'PSC'	Production sharing contract
'PwC'	PricewaterhouseCoopers LLP
'QCLNG'	Queensland Curtis LNG
'QGC'	QGC Pty Limited
'risked exploration'	See page 128
'ROACE'	Return on average capital employed
'Sabine Pass'	Sabine Pass Liquefaction, LLC
'SEC'	The United States Securities and Exchange Commission
'SIP'	Share Incentive Plan
'T1', 'T2', 'T3'	Train 1, Train 2, Train 3
'T&D'	Transmission and distribution
'tcf'	Trillion cubic feet
'the Regulations'	The Large & Medium-sized Companies and Groups (Accounts & Reports) Regulations 2008
'total resources'	See page 128
'TRCF'	Total recordable case frequency
'TSR'	Total shareholder return
'Unit lifting costs per boe'	Calculated by excluding royalty, tariff and insurance costs from 'unit operating costs/expenditure' as defined below
'Unit operating costs/ expenditure per boe'	Calculated by dividing production and other operating costs (royalties) on page 134 by the net production for the period. This measure does not include the impact of depreciation and amortisation costs and exploration costs as they are not considered to be costs associated with the operation of producing businesses
'VBDP'	Voluntary Bonus Deferral Plan

SHAREHOLDER INFORMATION

MANAGING YOUR SHAREHOLDING

BG Group ordinary shares are listed on the London Stock Exchange and trade under the symbol BG.L.

BG Group's shareholder register is maintained by our registrar, Equiniti. For queries relating to your shareholding, please contact Equiniti:

Telephone: 0871 384 2064*
+44 121 415 7029 (outside UK)
Lines are open from 8.30 am to 5.30 pm, Monday to Friday.
Website: **www.shareview.co.uk**
Online: https://help.shareview.co.uk (From here, you will be able to email your query securely)
Address: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, UK

BG Group American Depositary Receipts (ADRs) are listed on the US over-the-counter market known as OTCQX International Premier and trade under the symbol BRGYY.

BG Group's ADR register is maintained by our ADR depositary bank, Deutsche Bank Trust Company Americas:

Telephone: +1 800 937 5449 (US residents – toll free)
+1 718 921 8124 (outside USA)
Website: **www.adr.db.com**
Email: db@amstock.com
Address: Deutsche Bank Trust Company Americas, c/o American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn NY 11219, USA

* Calls to this number are charged at 8 pence per minute from a BT landline. Call charges from other networks may vary.

Dividends
Dividends are announced in US Dollars but are paid to holders of ordinary shares in Pounds Sterling. Dividends to holders of ADRs are paid in US Dollars.

The Pound Sterling amount payable per share will be fixed at the same time as the US Dollar dividend is announced. The rate of exchange used to determine the Pound Sterling equivalent amount is the average of the daily spot rates for the three business days prior to the business day before the announcement.

Dividends will be paid on the same day to holders of ordinary shares and ADRs.

Dividend payments directly into your bank account
Dividend payments on ordinary shares can be paid directly into your UK bank or building society account on the payment date. Direct dividend payments help BG Group improve its efficiency by reducing postage, printing and cheque clearance costs. They also help BG Group trace shareholders for whom the Group does not have a current address. To register for this service, contact Equiniti or download a form from our website by going to **www.bg-group.com/registrar**

Equiniti offers an overseas payments service to overseas shareholders in more than 90 countries worldwide. Under the service, shareholders may elect to receive their BG Group dividends in their local currency. For an administration fee, holders of ordinary shares can have their dividends automatically converted from Pounds Sterling into their local currency and paid into their bank account. For further details, contact Equiniti or visit **www.shareview.co.uk**

Consolidated tax vouchers
Shareholders who have elected to have their dividends paid directly into their bank account receive just one tax voucher each year covering both the interim and final dividend payments. For those shareholders who have made such an election, a consolidated tax voucher is enclosed with this report and covers all dividends paid during the UK 2012/13 tax year. If you have more than one shareholder account in the same name(s), you will receive a separate tax voucher in respect of those shareholdings in addition to the one enclosed. Shareholders wishing to receive a tax voucher in respect of each dividend payment should contact Equiniti.

Electronic communications
The Companies Act 2006, and the Articles of Association of BG Group plc, allow BG Group's website to be used to communicate with shareholders, provided that shareholders have agreed to this or are deemed to have agreed to this. Shareholders may receive notification by email or by post that documents are available to view on the website. Using electronic communications reduces printing, paper and postage costs and has a positive impact on the environment.

This year, BG Group will invite shareholders who currently receive hard copy communications to confirm if they wish to continue to receive communications in hard copy in the future. Shareholders who wish to receive hard copy documents in the future should complete the form enclosed with their annual report and return it to Equiniti. Shareholders who do not respond by Friday 24 May 2013 will be deemed to have consented to receiving electronic communication via the Group's website and will receive hard copy notification when documents are available to be viewed.

Shareholders who have received notification of availability of a document on the Company's website are entitled to request from Equiniti, free of charge, a hard copy of any such document. Shareholders can also revoke their consent to receive electronic communications at any time by contacting Equiniti.

Duplicate documents
A number of our shareholders receive duplicate documentation as a result of having more than one account on the register. If this applies to your shareholdings, you may elect to have your accounts combined by contacting Equiniti.

Voting electronically
All shareholders can appoint proxies for the AGM electronically at **www.sharevote.co.uk** Alternatively, shareholders who have already registered with Shareview can appoint a proxy by logging on to **www.shareview.co.uk**

Gifting your shares
To transfer your shares to another member of your family as a gift, please contact Equiniti for a gift transfer form. If you have a small number of shares and the dealing costs or minimum fee make it uneconomical to sell them, you may like to donate them to charity through ShareGift, a charity administered by The Orr Mackintosh Foundation. Contact Equiniti for a ShareGift transfer form. Information is also available on the ShareGift website at **www.sharegift.org**

BG Group corporate individual savings accounts (ISAs)

Telephone: 0151 237 2160
Website: **www.investec.co.uk**
Address: Investec Wealth & Investment Limited, The Plaza, 100 Old Hall Street, Liverpool L3 9AB

Low-cost share dealing services
Information on a range of low-cost share dealing services is available from Equiniti on 0845 603 7037 or at **www.bg-group.com/dealing**

BG GROUP WEBSITE
www.bg-group.com

Visit **www.bg-group.com/investors** to find out more information on the:

- AGM;
- latest financial results;
- reports;
- share price;
- financial calendar; and
- shareholder services.

You can also find out how to receive future shareholder communications electronically, and can access dividend calculators, change of address and stock transfer forms, as well as frequently asked shareholder questions.

SHAREVIEW
www.shareview.co.uk

This is a free, secure online site where you can:

- access information about your shareholding, including balance movements;
- see an indicative value of your shareholding;
- view information on recent dividend payments;
- update your records if you change your name or address;
- set up a dividend mandate or change your existing mandate details; and
- sign up to receive communications by email.

To register for this service, visit **www.shareview.co.uk** (you will need your shareholder reference number, which can be found on your dividend tax voucher or on your proxy form).

SHAREHOLDER PROFILE

Analysis of shareholders As at 31 December 2012	Number of shareholders	% of total shareholders	Number of shares	% of ordinary shares
Nominees and institutional investors	14 638	2.23	3 327 918 914	91.81
Individuals	582 408	97.77	286 216 621	8.19
Total	**597 046**	**100.00**	**3 614 135 535**	**100.00**

Range of shareholdings As at 31 December 2012	Number of shareholders	% of total shareholders	Number of shares	% of ordinary shares
1 – 500	425 185	71.21	105 085 633	2.91
501 – 1 000	112 781	18.89	75 986 332	2.10
1 001 – 5 000	53 861	9.02	89 750 072	2.48
5 001 – 10 000	2 725	0.46	18 549 179	0.51
10 001 – 50 000	1 224	0.21	24 559 621	0.68
50 001 – 100 000	257	0.04	18 990 483	0.53
100 001 – 1 000 000	681	0.11	246 975 327	6.83
1 000 001 and above	332	0.06	3 034 238 888	83.95
Total	**597 046**	**100.00**	**3 614 135 535**	**100.00**

GROUP FINANCIAL CALENDAR

Event	Type	Date
2012 final dividend	Ex-dividend	17 Apr 2013
2012 final dividend	Record date	19 Apr 2013
First quarter 2013 results	Announcement	2 May 2013
Strategy Presentation	Presentation	14 May 2013
2013 Annual General Meeting	Meeting	23 May 2013
2012 final dividend	Dividend payment (UK and US ADR)[a]	31 May 2013
Second quarter 2013 results	Announcement	26 July 2013[b]
2013 interim dividend	Ex-dividend	7 Aug 2013[b]
2013 interim dividend	Record date	9 Aug 2013[b]
2013 interim dividend	Dividend payment (UK and US ADR)[a]	6 Sep 2013[b]

(a) Following the move to declare all dividends in US Dollars, both ordinary share and ADR dividends will be paid on the same day.
(b) These dates are indicative. Actual dates will be confirmed on the BG Group website in due course.

BG GROUP IS NOT BRITISH GAS
BG Group was formed following the demergers of British Gas and BG plc. Two other companies operate as a result of the demergers: Centrica plc and National Grid plc. BG Group is not British Gas, the UK supplier of gas, electricity and home services. The British Gas business in the UK is owned and operated by Centrica plc. Any British Gas service or shareholder enquiries must be directed to Centrica plc, not BG Group.

More information, including contact information for Centrica and National Grid, can be found at **www.bg-group.com/demerger**

Share fraud warning
Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in UK or overseas investments. These operations are commonly known as 'boiler room' scams.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take the following steps before handing over any money:

- get the name of the person and organisation contacting you;
- check the FSA Register at **www.fsa.gov.uk/fsaregister** to ensure they are authorised;
- use the details on the FSA Register to contact the firm;
- call the FSA Consumer Helpline on 0845 606 1234 if there are no contact details on the Register or you are told they are out of date; and
- search the FSA's list of unauthorised firms and individuals to avoid doing business with.

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

Report a scam
If you are approached about a share scam, you should tell the FSA using the share fraud reporting form at **www.fsa.gov.uk/scams**, where you can find out about the latest investment scams. You can also call the FSA Consumer Helpline on 0845 606 1234. Details of any share dealing facilities that BG Group endorses will be included in the Group's mailings or made available at **www.bg-group.com**

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LEGAL NOTICE

Certain statements included in this Annual Report and Accounts contain forward-looking information concerning BG Group's strategy, operations, financial performance or condition, outlook, growth opportunities or circumstances in the countries, sectors or markets in which the Group operates. By their nature, forward-looking statements involve risk and uncertainty because they depend on future circumstances, and relate to events, not all of which are within the Company's control or can be predicted by the Company. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Actual results could differ materially from those set out in the forward-looking statements. For a description of factors that may affect BG Group's business, financial performance or results of operations, we urge you to look at the **Principal risks and uncertainties** included in this Annual Report and Accounts, see pages 32 to 37. No part of these results or this report constitutes, or shall be taken to constitute, an invitation or inducement to invest in BG Group plc or any other entity, and must not be relied upon in any way in connection with any investment decision. The Company undertakes no obligation to update any forward-looking statements.

References in this report to other reports or materials, such as a website address, have been provided to direct the reader to other sources of BG Group information which may be of interest. Neither the content of BG Group's website nor any website accessible by hyperlinks to BG Group's website nor any additional materials contained or accessible thereon, are incorporated in, or form part of, this report.

BG Group is subject to the regulatory requirements of the Financial Services Authority of the United Kingdom.

Explanatory note for US investors relating to gas and oil reserves and resources
BG Group continues voluntarily to use the United States Securities and Exchange Commission (SEC) definition of proved reserves to report proved gas and oil reserves in this Annual Report and Accounts. BG Group also voluntarily adopted the SEC definition of probable reserves in 2009 and that is used, where appropriate, in the report. For further details of BG Group's proved reserves as at 31 December 2012, and related supplemental gas and oil information, see **Supplementary information – gas and oil**, on page 128.
This report also contains additional information about other BG Group gas and oil reserves and resources that would not be permitted in SEC filings. For an explanation of terms used in connection with such additional reserves and resources information, refer to page 128.

BG Group plc
100 Thames Valley Park Drive
Reading, Berkshire RG6 1PT
United Kingdom

www.bg-group.com

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