

# BG GROUP PLC

## 2004 SECOND QUARTER AND HALF YEAR RESULTS

### HIGHLIGHTS

Second Quarter			Half Year		
2004	2003		2004	2003	
£m	£m	Results excluding exceptional items <sup>(i)</sup>	£m	£m	
<b>968</b>	891	+9% Turnover	<b>1,828</b>	1,669	+10%
<b>348</b>	299	+16% Total operating profit	<b>678</b>	617	+10%
<b>192</b>	160	+20% Earnings	<b>378</b>	339	+12%
<b>5.4p</b>	4.5p	+20% Earnings per share	<b>10.7p</b>	9.6p	+11%
<b>1.73p</b>	1.60p	+8% Interim dividend per share	<b>1.73p</b>	1.60p	+8%

Results including exceptional items					
<b>234</b>	166	+41% Earnings	<b>440</b>	345	+28%
<b>6.6p</b>	4.7p	+40% Earnings per share	<b>12.4p</b>	9.8p	+27%

- Total operating profit increased by 10% for the half year
- At constant US\$/UK£ exchange rates and upstream prices<sup>(ii)</sup>, total operating profit increased by 5% for the half year
- Earnings<sup>(i)</sup> up 12% for the half year
- Interim dividend increased by 8% to 1.73p per share
- First export of Karachaganak liquids via the Black Sea
- Final agreement for Equatorial Guinea LNG supply signed
- Further exploration licences offshore Norway awarded
- Completed sale of stake in the Tangguh project, Indonesia

BG Group's Chief Executive Frank Chapman said:

"BG Group continues to make good progress with its growth programme announced in February and has delivered a solid performance during the second quarter."

i) & ii) See Non-GAAP measures, page 10, for an explanation of results excluding exceptional items and results at constant US\$/UK£ exchange rates and upstream prices.

## BUSINESS REVIEW

*The results discussed in this Business Review (pages 2 to 9) relate to BG Group's performance excluding exceptional items. For the impact and a description of exceptional items, see the consolidated profit and loss accounts (pages 11 and 12) and note 2 of the accounts (page 18). Results at constant US\$/UK£ exchange rates and upstream prices are also quoted. See Non-GAAP section (page 10) for an explanation of these measures.*

### GROUP RESULTS

Second Quarter		Results excluding exceptional items		Half Year		
2004	2003			2004	2003	
£m	£m			£m	£m	
<b>968</b>	891	+9%	Turnover	<b>1,828</b>	1,669	+10%
			Total operating profit			
<b>278</b>	223	+25%	Exploration and Production	<b>545</b>	487	+12%
<b>19</b>	21	-10%	Liquefied Natural Gas	<b>34</b>	31	+10%
<b>32</b>	31	+3%	Transmission and Distribution	<b>52</b>	44	+18%
<b>25</b>	29	-14%	Power Generation	<b>63</b>	66	-5%
<b>(6)</b>	(5)	-20%	Other activities	<b>(16)</b>	(11)	-45%
<b>348</b>	299	+16%		<b>678</b>	617	+10%
<b>(16)</b>	(20)	+20%	Net interest	<b>(33)</b>	(42)	+21%
<b>(133)</b>	(112)	-19%	Tax	<b>(258)</b>	(230)	-12%
<b>192</b>	160	+20%	Earnings	<b>378</b>	339	+12%
<b>5.4p</b>	4.5p	+20%	Earnings per share	<b>10.7p</b>	9.6p	+11%
<b>402</b>	267	+51%	Capital investment	<b>1,029</b>	496	+107%
<b>292</b>	267	+9%	Capital investment excluding acquisitions	<b>659</b>	496	+33%

### Second quarter

Turnover rose by 9% to £968 million primarily due to increased E&P volumes (5%) and higher upstream prices partially offset by the impact of the weaker US Dollar.

E&P volume growth was due to new liquids production from the Karachaganak field in Kazakhstan (mainly linefill produced to inventory during the quarter and consequently not included in turnover) and increased production from the Scarab Saffron fields in Egypt.

The Group's total operating profit increased by 16% to £348 million. At constant US\$/UK£ exchange rates and upstream prices, total operating profit increased by 1%. The net interest charge was £4 million lower in the quarter, reflecting lower net interest on Group borrowings, higher investment income and a receipt of £1 million interest arising on a tax repayment. The effective tax rate was unchanged at 40%. Earnings increased by 20% to £192 million.

Capital investment in the quarter was £402 million, including £110 million for acquisitions in Trinidad and Brazil and £25 million in the North Caspian Sea Production Sharing Agreement which is reimbursable upon completion of the sale of BG Group's interest.

### Half year

Total operating profit increased by 10% reflecting E&P volume growth (8%) and higher upstream prices, partially offset by the impact of the weaker US Dollar. At constant US\$/UK£ exchange rates and upstream prices, total operating profit increased by 5%.

The net interest charge was down by £9 million primarily due to lower net interest on Group borrowings and higher investment income, partially offset by increased payments on finance leases associated with the LNG shipping business. The tax charge was based on an effective rate of 40%.

In February, the Directors announced a new dividend policy which aims to provide sustainable long-term growth in the Group's dividend. They also announced the expectation that the interim dividend will be set at half the preceding full year dividend and have therefore resolved to pay an interim dividend of 1.73 pence per share.

Cash inflow from operating activities increased by £55 million to £699 million in the six months ended 30 June 2004, principally due to an increase in operating profit partially offset by a seasonal increase in working capital. As at 30 June 2004, net borrowings were £954 million including finance leases of £182 million in respect of two LNG vessels. Gearing as at 30 June 2004 was 18.4% (1 January 2004 15.5%). Following the financial close of Egyptian LNG Train 1 project financing, a reimbursement for prior capital investment of £135 million (\$256 million) was received during the quarter.

Excluding £370 million for capital expenditure on the acquisitions completed in Canada, Mauritania, Trinidad and Brazil, organic capital investment was £659 million. Capital expenditure includes £183 million in respect of two LNG vessels and continuing investment in Egypt (£128 million) and Kazakhstan (£127 million) of which £57 million is ongoing investment in the North Caspian Sea Production Sharing Agreement which is reimbursable upon completion of the sale of BG Group's interest.

## EXPLORATION AND PRODUCTION

Second Quarter				Half Year		
2004	2003			2004	2003	
<b>41.2</b>	39.1	+5%	Production volumes (mmboe)	<b>82.1</b>	76.3	+8%
<b>490</b>	423	+16%	Turnover (£m)	<b>967</b>	881	+10%
<b>278</b>	223	+25%	Total operating profit (£m)	<b>545</b>	487	+12%
<b>£19.95</b>	£15.95	+25%	Average realised oil price per barrel	<b>£18.90</b>	£18.28	+3%
<b>(\$36.17)</b>	(\$25.58)	+41%		<b>(\$34.33)</b>	(\$29.35)	+17%
<b>15.40p</b>	14.86p	+4%	Average realised gas price per produced therm	<b>15.68p</b>	15.03p	+4%
<b>£1.07</b>	£0.92	+16%	Lifting costs per boe	<b>£0.97</b>	£0.96	+1%
<b>(\$1.93)</b>	(\$1.48)	+30%		<b>(\$1.76)</b>	(\$1.54)	+14%
<b>£2.09</b>	£1.85	+13%	Operating expenditure per boe	<b>£1.94</b>	£1.87	+4%
<b>(\$3.78)</b>	(\$2.97)	+27%		<b>(\$3.53)</b>	(\$3.00)	+18%
<b>275</b>	167	+65%	Capital investment	<b>722</b>	335	+115%

*Lifting costs are defined as operating expenditure excluding royalties, tariffs and insurance.  
Supplementary information: Operating and financial data is given on page 23.*

## Second quarter

Production volumes increased by 5% to 41.2 mmboe, mainly due to higher gas production from the Scarab Saffron fields, liquids exports (mainly linefill) from the Karachaganak field and production from the recently acquired Canadian properties.

Turnover increased by 16% reflecting the increase in production volumes and higher upstream prices, partially offset by the impact of a weaker US Dollar. The average realised gas price per produced therm was up 4%, mainly due to higher UK gas prices.

Unit operating expenditure was 24 pence higher during the quarter, reflecting royalty rates on Canadian production, the impact of higher prices on royalties and tariffs and higher unit costs at Karachaganak during the phased start-up of the export facilities, partially offset by the favourable impact of the movement in the US\$/UK£ exchange rate.

Unit lifting costs were up 15 pence due primarily to the impact of the Karachaganak start-up mentioned above, partially offset by the movement in exchange rates.

At constant reference prices and US\$/UK£ exchange rates and allowing for the build-up of production and linefill at Karachaganak, E&P operating margins were broadly unchanged compared with last year.

Total operating profit increased by 25% to £278 million.

Capital investment in the quarter of £275 million included £105 million for the acquisitions in Trinidad and offshore Brazil and continuing investment in Egypt (£53 million), Kazakhstan (£43 million), UK North Sea (£48 million) and Tunisia (£7 million).

### Half year

Production rose by 8% to 82.1 mmbœ, largely due to the contribution from the Scarab Saffron fields and increased production from Karachaganak. The increase in turnover of £86 million reflects the additional production and higher commodity prices, partially offset by the weaker US Dollar.

Unit operating expenditure increased by 7 pence due to the items referred to for the quarter above.

Lifting costs were broadly in line with 2003 as the impact of higher costs at Karachaganak were offset by the favourable movement in the US\$/UK£ exchange rate.

Capital investment of £722 million includes £365 million on the acquisitions completed during the period in Canada, Mauritania, Trinidad and Brazil. Organic investment of £357 million was mainly in Kazakhstan (£127 million), Egypt (£95 million), UK North Sea (£79 million) and Tunisia (£21 million).

### Second quarter business highlights

On 11 June, BG Group announced that following the resumption of production from the Karachaganak Phase Two facilities, the first shipment of Karachaganak liquids for export had been loaded at the Novorossiysk terminal on the Black Sea.

BG Group also announced on 11 June that the Government of the Republic of Kazakhstan (RoK) had indicated that it believes it had (and wished to exercise) a pre-emptive right to acquire the whole of BG Group's stake in the North Caspian Sea Production Sharing Agreement (NCSPSA) on the same terms, including price, as previously agreed with the pre-empting partners in the NCSPSA. BG Group continues to work with the pre-empting parties and the RoK to complete the previously announced sale.

On 15 June, BG Group announced that it had accepted an interest in two licences in the 18<sup>th</sup> Norwegian offshore licensing round. These licences comprise a total of six blocks and one part block. BG Group assumes a 30% interest in the blocks which all lie in the Norwegian Sea (Mid Norway), approximately 420 km northwest of Trondheim. With these interests, plus the three operated blocks BG Group was awarded last year, BG Group is continuing with its plan to develop a material position in Norway. BG Norge opened its new offices in Stavanger, Norway, on 4 May.

On 6 July, BG Group and partners announced that the development of the Glenelg field in the UKCS had received UK Government approval. The high temperature and high pressure gas condensate field will be developed via a single well from the existing Elgin platform. First production is scheduled for the third quarter of 2005.

In the national referendum on 18 July, the Bolivian electorate voted in favour of measures relating to gas exports, additional hydrocarbon taxes and, more broadly, increased government involvement in the management of the hydrocarbon sector. The impact of the referendum is still unknown as new legislation remains to be drafted subsequent to the voting.

BG Group and partners in acreage offshore Mauritania approved a drilling programme of nine exploration and appraisal wells on PSCs A and B. Up to eleven development wells were also approved as part of the \$600 million Phase 1 Chinguetti Oil Development.

Eight exploration and appraisal wells were completed since the beginning of the year, six of which were successful.

## LIQUEFIED NATURAL GAS

Second Quarter				Half Year		
2004	2003			2004	2003	
£m	£m			£m	£m	
276	264	+5%	Turnover	466	397	+17%
			Total operating profit			
5	8	-38%	Shipping and marketing	11	10	+10%
16	14	+14%	Atlantic LNG	30	28	+7%
(2)	(1)	-100%	Other including business development	(7)	(7)	-
19	21	-10%		34	31	+10%
100	78	+28%	Capital investment	264	119	+122%

## Second quarter

Total operating profit was down £2 million. At constant US\$/UK£ exchange rates operating profit was in line with 2003.

In shipping and marketing, sales volumes and turnover were broadly in line with 2003 as volumes through the Elba Island terminal from long-term contracted supplies were offset by lower Lake Charles volumes due to tighter market supply conditions. Operating profit from the shipping and marketing business was down £3 million as improved marketing margins were more than offset by adverse shipping market conditions and the impact of the weaker US Dollar.

BG Group's share of the operating profit from Atlantic LNG (ALNG) increased by £2 million to £16 million. The additional contribution from Train 3 (which began commercial production at the end of the second quarter of 2003) was partially offset by lower volumes at Train 1 following the failure of a compressor during June 2004, the impact of the weaker US Dollar and increased provision for the cost of gas from upstream suppliers to ALNG Train 1.

Capital investment includes £95 million for the delivery of an LNG vessel at the end of the quarter. The financial close of the project financing of Egyptian LNG Train 1 was achieved in the quarter and resulted in a reimbursement for prior capital investment of £135 million (\$256 million).

## Half year

Increased sales volumes and turnover in shipping and marketing were primarily due to the addition of contracted supplies into Elba Island from 1 January 2004.

Total operating profit increased by £3 million reflecting the above mentioned volume increase and a full six month contribution from ALNG Train 3 partially offset by the impact of adverse shipping market conditions and the weaker US Dollar.

Capital investment includes two LNG vessels (£183 million) and continuing investment on Egyptian LNG Trains 1 and 2 and ALNG Train 4.

## Second quarter business highlights

On 13 May, BG Group announced that it had completed the sale of its 50% interest in the Muturi Production Sharing Contract (Muturi PSC) in West Papua, Indonesia, for approximately \$253 million. BG Group's interest in the Muturi PSC provided a 10.73% interest in the Tangguh LNG project.

On 22 June, BG Group announced that its wholly-owned subsidiary, BG Gas Marketing Ltd, had signed a long-term agreement with Equatorial Guinea LNG Holdings Limited (EGLNG) to purchase

LNG. The agreement provides for the supply of 3.4 million tonnes per annum of LNG for a period of 17 years, beginning in 2007, from the LNG liquefaction plant being developed by EGLNG on Bioko Island, Equatorial Guinea. Construction of the liquefaction plant has commenced.

On 15 June, BG Group took delivery of a new-build LNG vessel – the Methane Kari Elin. The 138,200 cubic metre vessel is subject to a finance lease and has been chartered by Methane Services Limited (a BG Group subsidiary). The vessel will be used to meet BG Group's LNG shipping needs.



**POWER GENERATION**

Second Quarter			Half Year			
2004	2003		2004	2003		
£m	£m		£m	£m		
42	39	+8%	Turnover	99	90	+10%
25	29	-14%	Total operating profit	63	66	-5%
1	1	-	Capital investment	1	2	-50%

**Second quarter**

Total operating profit for the quarter of £25 million was down by £4 million, principally reflecting the adverse impact of the weaker US Dollar translation rates on the Philippine associate businesses and a change in the phasing of availability income at Seabank Power.

**Half year**

Half year total operating profit of £63 million was down £3 million due to the factors mentioned above.

**LEGAL NOTICE**

*These results include "forward-looking information" within the meaning of Section 27A of the US Securities Act of 1933, as amended and Section 21E of the US Securities Exchange Act of 1934, as amended. Certain statements included in these results, including without limitation, those concerning (i) strategies, outlook and growth opportunities, (ii) positioning to deliver future plans and to realise potential for growth, (iii) delivery of the performance required to achieve the 2006 targets, (iv) development of new markets, (v) the development and commencement of commercial operations of new projects, (vi) liquidity and capital resources, (vii) plans for capital and investment expenditure and (viii) statements preceded by "expected", "scheduled", "targeted", "planned", "proposed", "intended" or similar statements, contain certain forward-looking statements concerning operations, economic performance and financial condition. 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. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, (i) changes in economic, market and competitive conditions, including oil and gas prices, (ii) success in implementing business and operating initiatives, (iii) changes in the regulatory environment and other government actions, including UK and international corporation tax rates, (iv) a major recession or significant upheaval in the major markets in which BG Group operates, (v) the failure to ensure the safe operation of assets worldwide, (vi) implementation risk, being the challenges associated with delivering capital intensive projects on time and on budget, including the need to retain and motivate staff, (vii) commodity risk, being the risk of a significant fluctuation in oil and/or gas prices from those assumed, (viii) fluctuations in exchange rates, in particular the US\$/UK£ exchange rate being significantly different to that assumed, (ix) risks encountered in the gas and oil exploration and production sector in general, (x) business risk management and (xi) the Risk Factors included in BG Group's Annual Report and Accounts 2003. BG Group undertakes no obligation to update any forward-looking statements.*

*No part of these results 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.*

## PRESENTATION OF NON-GAAP MEASURES AND DEFINITIONS

### Presentation of Non-GAAP measures

- i) Results excluding exceptional items ('Business Performance') are presented as management believes that exclusion of these items facilitates understanding of the underlying performance and aids comparability of results for the periods concerned. The items excluded from Business Performance are exceptional items as defined by Financial Reporting Standard 3 – i.e. items which derive from events or transactions that fall within the ordinary activities of BG Group but which require separate disclosure in order to present a true and fair view of the performance during a period. For a reconciliation between results including and excluding exceptional items and for further details of exceptional items, see the consolidated profit and loss accounts, pages 11 and 12 and note 2 to the accounts, page 18.
- ii) BG Group also discloses 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.

### Definitions

In these results:

<b>bcf</b>	billion cubic feet
<b>bcfd</b>	billion cubic feet per day
<b>bcmpa</b>	billion cubic metres per annum
<b>boe</b>	barrels of oil equivalent
<b>boepd</b>	barrels of oil equivalent per day
<b>bopd</b>	barrels of oil per day
<b>CCGT</b>	combined cycle gas turbine
<b>DCQ</b>	daily contracted quantity
<b>DTI</b>	Department of Trade and Industry
<b>E&amp;P</b>	Exploration and Production
<b>FEED</b>	front end engineering design
<b>GW</b>	gigawatt
<b>LNG</b>	Liquefied Natural Gas
<b>m</b>	million
<b>mmboe</b>	million barrels of oil equivalent
<b>mmcfd</b>	million cubic feet per day
<b>mmcmd</b>	million cubic metres per day
<b>mmscfd</b>	million standard cubic feet per day
<b>mmscm</b>	million standard cubic metres
<b>mmscmd</b>	million standard cubic metres per day
<b>mtpa</b>	million tonnes per annum
<b>MW</b>	megawatt
<b>NGV</b>	Natural Gas Vehicles
<b>ROACE</b>	return on average capital employed
<b>T&amp;D</b>	Transmission and Distribution
<b>tcf</b>	trillion cubic feet
<b>PSA</b>	production sharing agreement
<b>PSC</b>	production sharing contract
<b>SPA</b>	sale and purchase agreement
<b>UKCS</b>	United Kingdom Continental Shelf

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
SECOND QUARTER**

	Notes	2004			2003		
		Total	Excep- tional items	Busi- ness perform- ance	Total	Excep- tional items	Busi- ness perform- ance
		£m	£m	£m	£m	£m	£m
<b>Turnover</b>	3	<b>968</b>	-	<b>968</b>	891	-	891
Operating costs		<b>(670)</b>	-	<b>(670)</b>	(642)	-	(642)
<b>Group operating profit</b>	3	<b>298</b>	-	<b>298</b>	249	-	249
Share of operating profits less losses in joint ventures and associated undertakings		<b>50</b>	-	<b>50</b>	50	-	50
<b>Total operating profit</b>	3	<b>348</b>	-	<b>348</b>	299	-	299
Profit on disposal of fixed assets	2	<b>70</b>	<b>70</b>	-	6	6	-
<b>Profit on ordinary activities</b>		<b>418</b>	<b>70</b>	<b>348</b>	305	6	299
Net interest	4	<b>(16)</b>	-	<b>(16)</b>	(20)	-	(20)
<b>Profit on ordinary activities before taxation</b>		<b>402</b>	<b>70</b>	<b>332</b>	285	6	279
Tax on profit on ordinary activities	5	<b>(161)</b>	<b>(28)</b>	<b>(133)</b>	(112)	-	(112)
<b>Profit on ordinary activities after taxation</b>		<b>241</b>	<b>42</b>	<b>199</b>	173	6	167
Minority shareholders' interest		<b>(7)</b>	-	<b>(7)</b>	(7)	-	(7)
<b>Earnings</b>		<b>234</b>	<b>42</b>	<b>192</b>	166	6	160
<b>Earnings per ordinary share<sup>(i)</sup></b>	6	<b>6.6p</b>	<b>1.2p</b>	<b>5.4p</b>	4.7p	0.2p	4.5p

i) There is no difference between basic and diluted earnings per ordinary share.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
HALF YEAR**

	Notes	2004			2003		
		Total	Excep- tional items	Busi- ness perform- ance	Total	Excep- tional items	Busi- ness perform- ance
		£m	£m	£m	£m	£m	£m
<b>Turnover</b>	3	<b>1,828</b>	-	<b>1,828</b>	1,669	-	1,669
Operating costs		<b>(1,247)</b>	-	<b>(1,247)</b>	(1,149)	-	(1,149)
<b>Group operating profit</b>	3	<b>581</b>	-	<b>581</b>	520	-	520
Share of operating profits less losses in joint ventures and associated undertakings		<b>97</b>	-	<b>97</b>	97	-	97
<b>Total operating profit</b>	3	<b>678</b>	-	<b>678</b>	617	-	617
Profit on disposal of fixed assets	2	<b>92</b>	<b>92</b>	-	6	6	-
<b>Profit on ordinary activities</b>		<b>770</b>	<b>92</b>	<b>678</b>	623	6	617
Net interest	4	<b>(33)</b>	-	<b>(33)</b>	(42)	-	(42)
<b>Profit on ordinary activities before taxation</b>		<b>737</b>	<b>92</b>	<b>645</b>	581	6	575
Tax on profit on ordinary activities	5	<b>(288)</b>	<b>(30)</b>	<b>(258)</b>	(230)	-	(230)
<b>Profit on ordinary activities after taxation</b>		<b>449</b>	<b>62</b>	<b>387</b>	351	6	345
Minority shareholders' interest		<b>(9)</b>	-	<b>(9)</b>	(6)	-	(6)
<b>Earnings</b>		<b>440</b>	<b>62</b>	<b>378</b>	345	6	339
<b>Earnings per ordinary share<sup>(i)</sup></b>	6	<b>12.4p</b>	<b>1.7p</b>	<b>10.7p</b>	9.8p	0.2p	9.6p

i) There is no difference between basic and diluted earnings per ordinary share.

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED  
GAINS AND LOSSES – HALF YEAR**

	2004 £m	2003 £m
<b>Earnings</b>	<b>440</b>	345
<b>Currency translation adjustments</b>	<b>(83)</b>	47
<b>Total recognised gains and losses</b>	<b>357</b>	392

## CONSOLIDATED BALANCE SHEET

	As at	
	30 Jun 2004 £m	31 Dec 2003 £m
<b>Fixed assets:</b>		
Intangible assets	1,119	840
Tangible assets	4,304	4,020
Investments	1,022	1,038
	<b>6,445</b>	<b>5,898</b>
<b>Current assets:</b>		
Stocks	140	119
Debtors: amounts falling due within one year	834	749
Debtors: amounts falling due after one year	96	88
Investments	146	201
Cash at bank and in hand	113	112
	<b>1,329</b>	<b>1,269</b>
<b>Creditors: amounts falling due within one year:</b>		
Borrowings	(485)	(495)
Other creditors	(1,059)	(988)
	<b>(1,544)</b>	<b>(1,483)</b>
<b>Net current liabilities</b>	<b>(215)</b>	<b>(214)</b>
<b>Total assets less current liabilities</b>	<b>6,230</b>	<b>5,684</b>
<b>Creditors: amounts falling due after more than one year:</b>		
Borrowings	(728)	(539)
Other creditors	(154)	(154)
	<b>(882)</b>	<b>(693)</b>
<b>Provisions for liabilities and charges</b>	<b>(1,122)</b>	<b>(1,075)</b>
	<b>4,226</b>	<b>3,916</b>
<b>CAPITAL AND RESERVES</b>		
BG Group shareholders' funds	4,228	3,925
Minority shareholders' interest	(2)	(9)
	<b>4,226</b>	<b>3,916</b>

## MOVEMENT IN BG GROUP SHAREHOLDERS' FUNDS

Second Quarter			Half Year	
2004	2003		2004	2003
£m	£m		£m	£m
234	166	Profit for the financial period	440	345
2	1	Issue of shares	7	1
(61)	(56)	Dividend	(61)	(56)
(34)	-	Currency translation adjustments	(83)	47
141	111	Net movement in BG Group shareholders' funds for the financial period	303	337
4,087	3,550	BG Group shareholders' funds at the beginning of the period	3,925	3,324
4,228	3,661	BG Group shareholders' funds as at 30 June	4,228	3,661

## CONSOLIDATED CASH FLOW STATEMENT

Second Quarter			Half Year	
2004	2003		2004	2003
£m	£m		£m	£m
348	299	Total operating profit	678	617
(50)	(50)	Less: share of operating profit in joint ventures and associated undertakings	(97)	(97)
298	249	Group operating profit	581	520
112	105	Depreciation and amortisation	229	201
4	19	Unsuccessful exploration expenditure written-off	7	23
(3)	(2)	Provisions	(3)	(1)
(86)	(84)	Working capital	(115)	(99)
325	287	<b>Net cash flow from operating activities</b>	699	644
28	25	<b>Dividends from joint ventures and associated undertakings</b>	33	35
(17)	(14)	<b>Returns on investments and servicing of finance<sup>(i)</sup></b>	(21)	(16)
(93)	(111)	<b>Tax paid</b>	(169)	(174)
(295)	(291)	<b>Capital expenditure and investment<sup>(ii)</sup></b>	(832)	(520)
245	5	<b>Proceeds from sales of assets<sup>(iii)</sup></b>	280	8
(63)	(55)	<b>Equity dividends paid</b>	(63)	(55)
(10)	136	<b>Management of liquid resources</b>	53	72
120	(18)	<b>Net cash flow before financing</b>	(20)	(6)
2	1	Changes in share capital	7	1
-	-	Shares issued to minority interests	-	2
(123)	6	Net movement in gross borrowings	25	35
(121)	7	<b>Net cash flow from financing activities</b>	32	38
(1)	(11)	NET MOVEMENT IN CASH	12	32
119	191	Opening cash	112	141
(5)	(2)	Changing values of currency	(11)	5
113	178	CLOSING CASH	113	178

i) Includes capitalised interest for the second quarter of £4 million (2003 £6 million) and for the half year of £6 million (2003 £11 million).

ii) Includes loans to joint ventures and associated undertakings and cash acquired of £10 million on the purchase of a subsidiary undertaking in 2004 year to date.

iii) Includes repayment of loans by joint ventures and associated undertakings of £102 million (2003 £3 million) for the second quarter and £105 million (2003 £6 million) for the half year.

**RECONCILIATION OF NET BORROWINGS – HALF YEAR**

	£m
Net borrowings as at 1 January 2004	(721)
Net increase in cash in the period	12
Cash inflow from the management of liquid resources	(53)
Cash inflow from change in gross borrowings	(25)
Inception of finance leases	(182)
Foreign exchange	15
<hr/>	
Net borrowings as at 30 June 2004	(954)
<hr/>	

Net borrowings (non-recourse) attributable to MetroGAS (including Gas Argentino) and Comgas were £321 million (1 January 2004 £345 million).

The gearing ratio (net borrowings as a percentage of net borrowings plus equity) was 18.4% (1 January 2004 15.5%).

As at 30 June 2004, BG Group's share of the net borrowings in joint ventures and associated undertakings amounted to approximately £1 billion, including BG Group shareholder loans of approximately £580 million. These net borrowings which form part of BG Group's share of the net assets in joint ventures and associated undertakings are included in BG Group's accounts.

**LIQUIDITY AND CAPITAL RESOURCES**

*All the information below is as at 30 June 2004, unless otherwise stated.*

The Group's principal borrowing entities are BG Energy Holdings Limited, including wholly-owned subsidiary undertakings whose borrowings are guaranteed by BG Energy Holdings Limited (collectively BGEH), and MetroGAS, Gas Argentino, Comgas and Gujarat Gas, which conduct their borrowing activities on a stand-alone basis.

BGEH had a \$1.0 billion US Commercial Paper Programme, which was unutilised, and a \$1.0 billion Eurocommercial Paper Programme, of which \$826 million was unutilised. BGEH also had a \$2.0 billion Euro Medium Term Note Programme, of which \$1.316 billion was unutilised.

BGEH had aggregate committed multicurrency revolving borrowing facilities of \$1.040 billion, of which \$520 million matures in 2005 and \$520 million matures in 2007. These facilities were undrawn.

In addition, BGEH had uncommitted multicurrency borrowing facilities of £611 million, of which £608 million was unutilised.

MetroGAS announced in 2002 that it had suspended payments of principal and interest on its financial indebtedness of approximately \$430 million<sup>(i)</sup>. Gas Argentino also suspended debt service on borrowings of \$70 million<sup>(i)</sup>. All the borrowings of MetroGAS and Gas Argentino are non-recourse to other members of the Group.

On 7 November 2003, MetroGAS announced an offer to restructure its financial obligations pursuant to an out-of-court agreement under Argentine law (APE). The restructuring offer needs to be accepted by at least a simple majority of creditors, representing two thirds of the financial indebtedness, in order to be approved by the court and therefore be binding upon all of MetroGAS' creditors. As of 16 July 2004, MetroGAS had obtained support from creditors representing approximately \$101.7 million (equivalent to 23.6% of the eligible debt).

*i) Indebtedness valuation does not include Past Due Interest (PDI) since suspension of principal and interest payments.*

Comgas had committed borrowing facilities of Brazilian Reals (BRL) 536 million, of which BRL 25 million was unutilised, and uncommitted borrowing facilities of BRL 1,248 million, of which BRL 1,070 million was unutilised.

Gujarat Gas had uncommitted borrowing facilities of Indian Rupees (INR) 1.74 billion, of which INR 616 million was unutilised.

## **Independent review report to BG Group plc**

### **Introduction**

We have been instructed by the Company to review the financial information for the six months ended 30 June 2004 which comprises the consolidated profit and loss account, statement of total recognised gains and losses, balance sheet, movement in shareholders' funds, cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### **Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

PricewaterhouseCoopers LLP  
Chartered Accountants  
London  
28 July 2004

### **Notes:**

- (a) The maintenance and integrity of BG Group's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

## Notes

### 1. Basis of preparation

The financial information contained in this quarterly report is unaudited and does not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. BG Group's statutory accounts for the year ended 31 December 2003, which include the unqualified report of the auditors, have been filed with the Registrar of Companies. This results statement has been prepared on the basis of the accounting policies set out in those statutory accounts.

### 2. Exceptional items

Second Quarter			Half Year	
2004	2003		2004	2003
£m	£m		£m	£m
70	6	Profit on disposal of fixed assets	92	6
(28)	-	Tax impact	(30)	-
42	6	Impact on earnings	62	6

#### 2004 second quarter: Disposal of investment

Profits on disposal of fixed assets during the second quarter of 2004 included the disposal of BG Group's interest in the Muturi Production Sharing Contract in Indonesia for £142 million realising a £71 million pre-tax and £43 million post-tax profit on the sale.

#### 2004 first quarter: Disposal of investment

During the first quarter of 2004, BG Group disposed of its 1.21% holding of shares in a listed company, Gas Authority of India Limited, for £32 million. Tax of £2 million arose on the profit on disposal, based on the effective rate of capital gains tax applicable in India for long-term investments.

#### 2003 second quarter: Disposal of investment

In the second quarter, BG Group disposed of 50% of its 100% investment in BG Brindisi LNG S.p.A., realising a £6 million pre- and post-tax profit.

### 3. Segmental analysis

Second Quarter		Turnover excluding share of joint ventures	Half Year	
2004 £m	2003 £m		2004 £m	2003 £m
490	423	Exploration and Production	967	881
276	264	Liquefied Natural Gas	466	397
162	172	Transmission and Distribution	301	309
42	39	Power Generation	99	90
2	-	Other activities	3	-
(4)	(7)	Less: intra-group sales	(8)	(8)
<b>968</b>	891		<b>1,828</b>	1,669

Second Quarter	Group operating profit/(loss)		Share of operating profit in joint ventures and associated undertakings		Total operating profit/(loss)	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Exploration and Production	278	223	-	-	278	223
Liquefied Natural Gas	3	7	16	14	19	21
Transmission and Distribution	21	21	11	10	32	31
Power Generation	2	3	23	26	25	29
Other activities	(6)	(5)	-	-	(6)	(5)
	<b>298</b>	249	<b>50</b>	50	<b>348</b>	299
<b>Half Year</b>						
Exploration and Production	545	487	-	-	545	487
Liquefied Natural Gas	4	3	30	28	34	31
Transmission and Distribution	31	24	21	20	52	44
Power Generation	17	17	46	49	63	66
Other activities	(16)	(11)	-	-	(16)	(11)
	<b>581</b>	520	<b>97</b>	97	<b>678</b>	617

BG Group's share of turnover and operating profit in joint ventures for the second quarter was £62 million (2003 £62 million) and £22 million (2003 £24 million), respectively; and for the half year was £121 million (2003 £116 million) and £43 million (2003 £45 million), respectively.

#### 4. Net interest

Second Quarter			Half Year	
2004	2003		2004	2003
£m	£m		£m	£m
(12)	(15)	Net interest payable on net borrowings	(25)	(33)
4	6	Interest capitalised	6	11
(8)	(9)		(19)	(22)
(3)	-	Finance lease interest	(4)	-
(2)	(3)	Unwinding of discount on provisions <sup>(i)</sup>	(4)	(6)
(2)	(2)	Unwinding of discount on deferred income	(4)	(4)
8	4	Other net interest <sup>(ii)</sup>	16	9
(7)	(10)	Net interest: Group	(15)	(23)
(6)	(7)	Joint ventures	(12)	(13)
(3)	(3)	Associated undertakings	(6)	(6)
(16)	(20)	Total net interest	(33)	(42)

i) Relates to the unwinding of the discount on provisions in respect of decommissioning, included in the profit and loss account as a financial item within the net interest charge.

ii) Includes £5 million (2003 £4 million) receivable from joint ventures and associated undertakings in the quarter, and £9 million (2003 £8 million) for the year to date.

#### 5. Taxation – half year

The taxation charge for the period before exceptional items was £258 million (2003 £230 million), representing an effective tax rate of 40% and the taxation charge including exceptional items was £288 million (2003 £230 million), representing an effective tax rate of 39%.

## 6. Earnings per ordinary share

### Reconciliation of earnings and earnings per share including and excluding exceptional items

Second Quarter				Half Year			
2004		2003		2004		2003	
£m	Pence per share	£m	Pence per share	£m	Pence per share	£m	Pence per share
<b>234</b>	<b>6.6</b>	166	4.7	<b>440</b>	<b>12.4</b>	345	9.8
<b>(42)</b>	<b>(1.2)</b>	(6)	(0.2)	<b>(62)</b>	<b>(1.7)</b>	(6)	(0.2)
<b>192</b>	<b>5.4</b>	160	4.5	<b>378</b>	<b>10.7</b>	339	9.6

### Earnings and earnings per share before interest, tax, depreciation and amortisation – including and excluding exceptional items

Second Quarter				Half Year			
2004		2003		2004		2003	
£m	Pence per share	£m	Pence per share	£m	Pence per share	£m	Pence per share
<b>234</b>	<b>6.6</b>	166	4.7	<b>440</b>	<b>12.4</b>	345	9.8
<b>7</b>	<b>0.3</b>	7	0.2	<b>9</b>	<b>0.3</b>	6	0.2
<b>161</b>	<b>4.6</b>	112	3.2	<b>288</b>	<b>8.2</b>	230	6.5
<b>16</b>	<b>0.4</b>	20	0.6	<b>33</b>	<b>0.9</b>	42	1.2
<b>112</b>	<b>3.2</b>	105	3.0	<b>229</b>	<b>6.5</b>	201	5.7
<b>530</b>	<b>15.1</b>	410	11.7	<b>999</b>	<b>28.3</b>	824	23.4
<b>(42)</b>	<b>(1.2)</b>	(6)	(0.2)	<b>(62)</b>	<b>(1.7)</b>	(6)	(0.2)
<b>488</b>	<b>13.9</b>	404	11.5	<b>937</b>	<b>26.6</b>	818	23.2

Earnings per share calculations in 2004 are based on shares in issue of 3,530 million for the quarter and 3,529 million for the half year.

There is no difference between the figures presented above and diluted earnings per share.

**7. Capital investment by region**

<b>Second Quarter</b>			<b>Half Year</b>	
<b>2004</b>	2003		<b>2004</b>	2003
<b>£m</b>	£m		<b>£m</b>	£m
<b>50</b>	54	NW Europe	<b>78</b>	92
<b>37</b>	20	South America	<b>54</b>	33
<b>54</b>	84	Asia and Middle East	<b>150</b>	167
<b>218</b>	36	North America and Trinidad	<b>524</b>	64
<b>43</b>	73	Mediterranean Basin and Africa	<b>223</b>	140
<b>402</b>	267		<b>1,029</b>	496

**8. Quarterly information: earnings and earnings per share**

	<b>2004</b>	2003	<b>2004</b>	2003
	<b>£m</b>	£m	<b>Pence</b>	Pence
First quarter				
- including exceptional items	<b>206</b>	179	<b>5.8</b>	5.1
- excluding exceptional items	<b>186</b>	179	<b>5.3</b>	5.1
Second quarter				
- including exceptional items	<b>234</b>	166	<b>6.6</b>	4.7
- excluding exceptional items	<b>192</b>	160	<b>5.4</b>	4.5
Third quarter				
- including exceptional items		208		5.9
- excluding exceptional items		161		4.6
Fourth quarter				
- including exceptional items		215		6.1
- excluding exceptional items		183		5.2
Full year				
- including exceptional items		768		21.8
- excluding exceptional items		683		19.4

**Supplementary information: Operating and financial data**

Second Quarter				Exploration and Production		Half Year			
2004	2003					2004	2003		
Production volumes (mmboe)									
<b>5.3</b>	5.5	-4%	- oil			<b>10.8</b>	11.6	-7%	
<b>5.7</b>	4.6	+24%	- liquids			<b>11.4</b>	9.4	+21%	
<b>30.2</b>	29.0	+4%	- gas			<b>59.9</b>	55.3	+8%	
<b>41.2</b>	39.1	+5%	- total			<b>82.1</b>	76.3	+8%	
<b>£19.95</b>	£15.95	+25%	Average realised oil price per barrel			<b>£18.90</b>	£18.28	+3%	
<b>(\$36.17)</b>	(\$25.58)	+41%				<b>(\$34.33)</b>	(\$29.35)	+17%	
<b>£12.46</b>	£7.45	+67%	Average realised liquids price per barrel			<b>£10.54</b>	£8.62	+22%	
<b>(\$22.59)</b>	(\$11.95)	+89%				<b>(\$19.15)</b>	(\$13.84)	+38%	
<b>17.89p</b>	16.02p	+12%	Average realised UK gas price per produced therm			<b>18.84p</b>	16.70p	+13%	
<b>13.83p</b>	13.87p	-	Average realised International gas price per produced therm			<b>13.43p</b>	13.41p	-	
<b>15.40p</b>	14.86p	+4%	Average realised gas price per produced therm			<b>15.68p</b>	15.03p	+4%	
<b>£1.07</b>	£0.92	+16%	Lifting costs per boe <sup>(i)</sup>			<b>£0.97</b>	£0.96	+1%	
<b>(\$1.93)</b>	(\$1.48)	+30%				<b>(\$1.76)</b>	(\$1.54)	+14%	
<b>£2.09</b>	£1.85	+13%	Operating expenditure per boe			<b>£1.94</b>	£1.87	+4%	
<b>(\$3.78)</b>	(\$2.97)	+27%				<b>(\$3.53)</b>	(\$3.00)	+18%	
<b>125</b>	122	+2%	Development expenditure (£m)			<b>264</b>	238	+11%	
Gross exploration expenditure (£m)									
<b>50</b>	48	+4%	- capitalised expenditure			<b>95</b>	96	-1%	
<b>13</b>	4	+225%	- other expenditure			<b>26</b>	16	+63%	
<b>63</b>	52	+21%	- gross expenditure			<b>121</b>	112	+8%	

i) Lifting costs are defined as operating expenditure excluding royalties, tariffs and insurance.

BG Group's exposure to the oil price varies according to a number of factors including the mix of production and sales. Management estimates that, other factors being constant, a \$1.00 rise (or fall) in the Brent price would increase (or decrease) operating profit in 2004 by approximately £30 million to £40 million.

BG Group's exposure to the US\$/UK£ exchange rate varies according to a number of factors including the timing of US Dollar revenues and costs including capital expenditure. Management estimates that in 2004, other factors being constant, a 10 cent strengthening (or weakening) of the US Dollar would increase (or decrease) operating profit by approximately £45 million to £55 million, whilst not having a significant effect on cash flow before financing activities.

## Supplementary information for North American investors (unaudited)

The Group prepares its consolidated financial statements in accordance with generally accepted accounting principles applicable in the United Kingdom (UK GAAP), which differ in certain significant respects from those applicable in the United States (US GAAP). The adjustments necessary to restate net income for the periods and shareholders' funds in accordance with US GAAP are shown in the tables set out below. Details of these differences are given in BG Group's statutory accounts for the year ended 31 December 2003.

### EFFECT ON NET INCOME OF DIFFERENCES BETWEEN UK AND US GAAP

	Half Year	
	2004 £m	2003 £m
Net income (UK GAAP)	440	345
US GAAP adjustments:		
Pension costs	(7)	(8)
Goodwill	8	8
Share options	(15)	-
Decommissioning costs	3	-
Liquidated damages	(2)	-
Commodity contracts	(157)	(78)
Currency and interest rate derivative instruments	(9)	40
Realised gains on listed investments	(23)	-
Realised loss on disposal of investments	(5)	-
Currency translation adjustments	1	30
Taxes	66	17
<b>Net income (US GAAP)</b>	<b>300</b>	<b>354</b>
Currency translation adjustments	(85)	(31)
<b>Other comprehensive income</b>	<b>215</b>	<b>323</b>
<hr/>		
Analysis of net income between:		
- continuing operations (net of tax of £196 million, 2003 £210 million)	262	350
- discontinued operations (net of tax of £25 million, 2003 £3 million)	38	4
<b>Net income (US GAAP)</b>	<b>300</b>	<b>354</b>
<hr/>		
Earnings per ADS (US GAAP)		
- continuing operations (£)	0.37	0.49
- discontinued operations (£)	0.06	0.01
	<b>0.43</b>	<b>0.50</b>

**Supplementary information for North American investors (unaudited)  
(continued)**

**EFFECT ON SHAREHOLDERS' FUNDS OF DIFFERENCES BETWEEN UK AND US GAAP**

	<b>As at 30 Jun</b>	
	<b>2004</b>	2003
	<b>£m</b>	£m
BG Group shareholders' funds (UK GAAP)	<b>4,228</b>	3,661
US GAAP adjustments:		
Pension costs	<b>17</b>	24
Goodwill	<b>106</b>	89
Decommissioning costs	<b>(18)</b>	-
Liquidated damages	<b>(24)</b>	-
Commodity contracts	<b>(426)</b>	(177)
Currency and interest rate derivative instruments	<b>(14)</b>	(14)
Taxes	<b>212</b>	98
Own shares	<b>-</b>	(10)
Dividend	<b>61</b>	56
<b>BG Group shareholders' funds (US GAAP)</b>	<b>4,142</b>	<b>3,727</b>

## Enquiries

Enquiries relating to BG Group's results, business and financial position should be made to:

Investor Relations Department  
BG Group plc  
100 Thames Valley Park Drive  
Reading  
Berkshire  
RG6 1PT

Tel: 0118 929 3025  
e-mail: [invrel@bg-group.com](mailto:invrel@bg-group.com)

General enquiries about shareholder matters should be made to:

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6DA

Tel: 0870 600 3951

## Financial Calendar

<b>Ex-dividend date for 2004 interim dividend</b>	<b>4 August 2004</b>
<b>Record date for 2004 interim dividend</b>	<b>6 August 2004</b>
<b>Payment of 2004 interim dividend:</b>	
<b>Shareholders</b>	<b>10 September 2004</b>
<b>American depositary receipt holders</b>	<b>17 September 2004</b>
<b>Announcement of 2004 third quarter results</b>	<b>11 November 2004</b>

**BG Group plc website: [www.bg-group.com](http://www.bg-group.com)**

**Registered office**

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Registered in England No. 3690065