

# Commitment to profitable growth



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Sir Robert Wilson  
Chairman

I am pleased to report that BG Group has achieved another good set of results, with a 5% increase in total operating profit to £3 248 million and an 11% increase in earnings per share to 52.7 pence. We are once again raising the full year dividend payment, with a 30% increase to 9.36 pence per share. Financial results alone can never tell more than part of the story in a business such as that of BG Group. I am, therefore, very pleased to report that there were highly encouraging developments in the Group's exploration prospects, including one of the major industry successes of recent years in the Tupi discovery, offshore Brazil. Production volumes were broadly in line with 2006, even though output was affected by a number of factors, notably the disruption to UK production caused by third-party damage to the North Sea Central Area Transmission System (CATS) pipeline. There was further excellent performance by the Liquefied Natural Gas (LNG) business, where profits increased by 48%.

#### Business context

Natural gas has become one of the world's most important commodities, central to global long-term energy needs. Access to secure gas supplies – whether imported or indigenous – is seen as essential in most mature economies, and plays an increasingly important part in the development of many emerging nations.

For a growing number of countries, the importance of gas within the broader energy mix is magnified further by concern about climate change. There is clear evidence that mankind's activities have a direct impact

on the global climate. In response, many governments are now committed to the reduction of greenhouse gas emissions. This will require a multi-stranded approach, encompassing fuel choice and efficiency of energy use, as well as alternatives to the burning of fossil fuels and the deployment of technology innovations such as carbon capture and storage.

Natural gas offers plentiful supplies, proven and cost-effective technology, and, importantly – as the cleanest of the hydrocarbon fuels – 40% lower carbon content than coal. As a result, there is an opportunity for gas to displace more carbon-intensive energy sources. Gas is also capable of greater generation efficiency than other fossil fuels. Although natural gas is not the answer to climate change, it can make an important contribution towards a solution.

As a global integrated gas business, BG Group is playing a part in helping to meet this defining challenge of our age, coupled with a commitment to reduce carbon emissions from its own operations. This subject is addressed later in this Report and also in more detail in the Group's separate Corporate Responsibility Report 2007.

Global energy needs grew throughout 2007, reflected in high oil prices and a continued increase in the demand for gas. This was particularly evident in the international LNG market, which is becoming a significant contributor to energy supply security and in which BG Group benefits strongly from its role as a leading gas company.

Whilst prices are likely to fluctuate, it looks probable that they will remain at levels significantly higher than we saw in the earlier part of this decade. However, for BG Group, as for many international oil and gas companies, gains from commodity prices in 2007 were partly offset by the continued weakness of the US Dollar, the currency in which a significant proportion of the Group's revenues are denominated, and by an increase in costs, far in excess of the rate of inflation, for most of the supplies and services upon which our industry depends.

#### Strategic framework

Whilst BG Group has its roots in the old British Gas monolith, its emergence as an international business is much more recent and is largely a product of the last ten years, following the demerger of British Gas into BG Group and Centrica (which owns the British Gas marketing business in the UK). BG Group's evolution over the last ten years can be viewed as having three broad, overlapping phases.

In the early part of the decade, the focus was on progressing the portfolio of opportunities that had been put in place in the late 1990s. Important new opportunities were also identified, notably the core of the Global LNG business, which is now a major contributor to the Group.

In recent years, as the Group has expanded, it has focused on the timely completion of its project portfolio and on the development of a new, and much wider, portfolio of exploration and production opportunities.

With this second phase largely completed, the Group's plans for future growth are underpinned by the growing strength of the reserves and resources base and the quality of the opportunity set it has assembled in recent years. The Group has now come full circle, and its focus is returning to implementation priorities. That is not to say that additional opportunities will be overlooked. Far from it. It does mean, however, that the Group has already secured within its portfolio the opportunities and projects that will meet its ambition to deliver another decade of strong growth.

## 2007 highlights

### Revenue and other operating income\*

**£8 330m**

2006 £7 270m up 15%

### Total operating profit\*

**£3 248m**

2006 £3 103m up 5%

### Earnings per share\*

**52.7p**

2006 47.4p up 11%

### Dividend per share

**9.36p**

2006 7.20p up 30%

#### Progress in 2007

There were a number of notable highlights in the Group's Exploration and Production (E&P) activities over the year. These are discussed more fully in the Chief Executive's statement. The main focal point was the outcome of drilling in the Santos Basin, offshore Brazil, by the consortium in which BG Group has a 25% interest. Results there indicate the prospect of a new world-class field, offering the potential for a major new source of value for the Group in the longer term. The signing of a new agreement on the sale of gas from the Karachaganak facility in Kazakhstan was also an important milestone for the Group, providing for significantly increased gas sales once the proposed Phase III expansion comes onstream.

The growth of the LNG business has exceeded even the most optimistic of expectations just five years ago. Whilst the global LNG market remains relatively immature, accounting for the delivery of around 7% of gas volumes worldwide, it is expanding rapidly – and BG Group is one of the leading companies in its development. Already the largest LNG importer by volume in the USA, the Group has sufficient flexibility of supply to meet the needs of both contract customers and spot purchasers in European and Asian markets.

#### Governance and Corporate Responsibility

Some of the world's most significant hydrocarbon reserves are located in regions

prone to political and social instability, and the process by which those reserves are found, produced and delivered to markets is one that presents constant technological and operational challenges. As BG Group grows – and as established hydrocarbon provinces in developed nations approach maturity – the Group's portfolio will continue to include territories presenting a higher degree of risk than that faced within the more stable economies of Organisation for Economic Co-operation and Development (OECD) nations.

These risks – which include the range of government actions associated with resource nationalism and the threat of disruption from the actions of non-state groups – are faced by all large international oil and gas companies. However, in highlighting the risk factors to be taken into account when assessing the Group's growth prospects, I should also be clear on two points.

First, the Group has an effective balance between its OECD and non-OECD investments, and indeed several of its non-OECD investments are in countries that have long offered an investment environment just as stable as that in Western Europe or North America. The strategy and future prospects section on page 10 provides further detail of BG Group's global growth opportunities.

Second, whilst the Group's portfolio has broadened, it has intensified its efforts to manage the consequent challenges.

\* For a reconciliation between Business Performance and Total Results, see note 2, page 82.

BG Group combines the highest standards of corporate governance with a robust assessment of operational risk and a rigorous focus on security, safety and asset integrity. In all aspects, the Group is guided by its Business Principles, which set out core values and behaviours.

In the Board's view, a commitment to putting the Business Principles into practice is the best foundation for the creation of enduring shareholder value. BG Group's long-term prospects depend on positive and sustainable relationships with governments, partners, neighbouring communities and employees. Those relationships are underpinned by a commitment to work responsibly at all times, as well as by strategies that seek to align the Group's long-term objectives with the aspirations of its key stakeholders. More details on our approach to Corporate Responsibility can be found on page 38.

I am pleased by the many examples of Business Principles put into practice that are entered for the Group's annual Chairman's Awards. The Group is also increasingly focused on the contribution its businesses can make to sustainable social, economic and environmental development in the countries in which they operate. This will be a theme to which I expect to return in future years.

**Annual Report and Accounts online**

In common with many companies, BG Group is actively seeking ways to reduce its use of paper in regular communications. Last year, I wrote to shareholders explaining that the Group intended to take advantage of the provisions of the Companies Act 2006, which permits companies to communicate with shareholders electronically via their websites. Therefore, this year, printed copies of this Report have only been sent to new shareholders and to those shareholders who specifically requested a paper copy.

In line with the new electronic communications regime, our Annual Report and Accounts and Notice of Annual General Meeting can now be obtained online by accessing the BG Group website ([www.bg-group.com/ara](http://www.bg-group.com/ara)), and these will remain there throughout the year. Shareholders may request a printed copy of the Report at

[www.bg-group.com](http://www.bg-group.com)

any time – see page 129 for further details.

With the benefits of online navigation – and with access to broadband now widespread – I hope these changes will enable a better understanding of the Group's activities and ambitions whilst minimising the environmental and cost impact associated with a high number of printed publications.

**The Board**

We welcome Dr John Hood, the Vice-Chancellor of the University of Oxford, who joined our Board in April 2007. The Group's Deputy Chief Executive, William Friedrich, announced his retirement from the Board in December. He joined the Group 12 years ago, and was one of the architects of the two highly successful demergers that followed in 1997 and 2000. He leaves with our thanks and best wishes for the future.

Finally, I would like to thank the people of BG Group. As the industry becomes ever more complex and the pace of change accelerates, the Group's continued success is testament to their professionalism, dedication and passion.



**Sir Robert Wilson**  
Chairman