



Sustainability Report 2011

This document is a PDF version of the online BG Group Sustainability Performance Report, including all information provided within the 2011 performance section of the sustainability website, www.bg-group.com/sustainability as at 4 April 2012.



Contents

This document is a PDF version of the online BG Group Sustainability Performance Report. It includes all information provided within the 2011 performance section of the sustainability website. Information on BG Group's policies and management systems in this area can be found in the management approach section of the sustainability website, or downloaded from the Reporting tools section of the website.

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www.bg-group.com/sustainability



About this Report

Management Approach

This section sets out our arrangements for governance, including the Business Principles, policies and standards that provide the basis for implementing the Group's approach to sustainability. It describes the framework within which we run our business.

2011 Performance

This part of the report includes an introduction from our Chief Executive, Sir Frank Chapman, a case study on unconventional gas and our performance in six key areas of activity.

In these Performance sections, we report, as in previous years, in six key areas:

- Review our approach to developing our people and nurturing leaders in a growing business.
- Learn about actions we have taken to reinforce an ethical and responsible culture.
- See how we have performed in preserving the health, safety and security of the people who work for us.
- Find out how we have responded to developments and invested in the societies where we operate.
- See how we have managed our operations to minimise their environmental impact.
- Examine our actions to address the global challenge of climate change.

These sections report on:

- how we respond to key external events, including political, social and regulatory changes that had implications for our people, the environment or communities where we work;
- actions we took to strengthen the business for the future, such as new policies or structures; and
- our progress against our targets.

Chief Executive's statement



Sir Frank Chapman Chief Executive

"For BG Group, sustainability is a prerequisite for long-term performance and value creation for our shareholders."

We're making good progress with delivering our growth plans. We are a growth company, in the middle of the heaviest investment phase in our history. Over the next few years, we need to invest significantly to achieve our ambition. We want to be a truly great company, sustained through powerful organic growth, and meeting high standards of ethical conduct.

Our approach – how we do our work

We understand that we are defined not so much by what we are and the assets we own but by who we are and how we do our work.

Our commitment to sustainability, and the protection of our licence to operate, is based on the application of our Business Principles – safety, environmental stewardship, ethical conduct, the development of our employees and the long-term future of the communities where we operate. That commitment is also based on a strong belief that business success must be rooted in partnerships with our stakeholders in governments, societies and communities.

For BG Group, sustainability is a prerequisite for long-term performance and value creation for our shareholders.

Relentless focus on safety

To my great concern and regret our safety performance deteriorated in 2011. Three people sadly lost their lives working for BG Group. Our total recordable case frequency also deteriorated from a previously improving trend, for the most part due to the ramp-up in onshore unconventional gas activity.

In March, in Kazakhstan, an unplanned gas release during vessel entry resulted in a single fatality. In May, an amine flash tank ruptured at one of our sites in Louisiana, and the resulting pressure release killed one of the operators standing nearby. In June, in our QGC operations in Australia, a tugboat sank with four persons on board, resulting in a fatality.

We have undertaken a number of initiatives in response to this unacceptable situation. They are detailed in this report. During 2011, we took action to reinforce our safety culture, particularly among our contractors, in a concerted effort to improve on our performance. And we ran a Global Safety Week across the Group in December 2011, during which every employee was stood down from normal activities and engaged in a Group-wide process to reinforce our safety culture and make personal commitments based on the watchwords Observation, Intervention, Compliance and Contractor Management (OICC).

Reducing the risk of oil spills

In 2011 we completed our full internal review of well risk, set up following the BP Macondo Deepwater Horizon incident of April 2010. We participated also in the global oil industry working group which aims to prevent incidents of this kind.

We have now updated and enhanced our oil spill response plans, developing new Group guidance on preparing oil spill contingency plans and on minimising blow-out risk.

This tragic incident, and the environmental damage and disruption to local communities which came in its aftermath, was another reminder to us all that for an oil and gas company sustainability is, in the first instance, about safe operations. That is the expectation of our employees, of the communities affected by our operations, of the governments who are our partners, and of civil society more broadly.

Water management

There is an increasing interest in how we – and many other sectors of industry – are managing water resources.

For us, the development of our unconventional gas portfolio – shale gas activities in the USA and the coal seam gas business in Australia – has highlighted the importance of managing responsibly the large volumes of water used and produced by these operations, not just today but for the long term.

In this report you can read about our water management plans in action. We are building reverse osmosis plants to treat the brackish water we produce in Queensland, so that it can be used in local industry and agriculture. In Louisiana, we continue to use waste water from a local paper mill for our operations, rather than sourcing freshwater. And in Texas, we have started a project to look at using deep saline groundwater sources for drilling and fracturing, instead of local freshwater systems.

Climate change

We also explain that we are on track to achieve the emission reduction goals we set ourselves in 2007, and are now looking ahead. We carried out greenhouse gas (GHG) reduction projects achieving approximately 221 000 tonnes of sustainable annualised GHG reductions in 2011 and are on target to meet our goal of a sustainable reduction in our GHG emissions of 1 million tonnes by 2012 (compared with a no action base case). We had achieved a sustainable GHG reduction of approximately 985 000 tonnes by 31 December 2011.

During the year, we debated how to set meaningful targets for the future, given our rising production profile. We have made good progress with research into carbon management, including plans for our Carbon Institute which will research ways to reduce carbon emissions, and are working on plans for future GHG emission reductions in our business. We have identified 67 700 tonnes of reductions to be delivered in 2012 from projects including the continuing replacement of cast iron pipe in our Comgas gas distribution business in Brazil and the use of a liquid recovery system in well operations in Kazakhstan. Together, these are expected to cut over 41 000 tonnes of GHG emissions.

Chief Executive's Statement

The progress we have made in reducing our GHG emissions was recognised by our inclusion in the Carbon Performance Leadership Index in 2011. Climate change will continue to be a key consideration for BG Group strategy in the future. During 2011, we strengthened our organisation further by appointing a senior climate change specialist, who joined the Group in 2012.

Working in partnership with stakeholders

In 2011, despite the upheaval in Egypt and Tunisia and floods in Australia, we kept our operations running safely and worked closely with local fence-line communities through this difficult time.

The social and political revolutions in North Africa created a volatile operating environment, with calls for institutional change, economic opportunity and social justice. During the year, we made renewed efforts to strengthen our relationships with a number of the communities where we work through open and participatory consultation.

These events remind us that no institution, public or private sector, can take its franchise for granted. Our licence to operate depends on the support not just of host governments, but also of broader society and, in particular, of the communities where we operate.

Stakeholder unconventional gas concerns

Consultation with stakeholders was particularly important in Australia and the USA, where the development of unconventional gas resources has become an issue of public concern.

Given our engagement with stakeholders and the general public about the industry and the potential risks associated with these operations, we have now publicly outlined how we aim to develop unconventional gas with minimal impact on the environment.

In view of the importance of these issues, this report contains a case study setting out in more detail how we are addressing them.

GRI and UN Global Compact

For the third year, this report complies with Global Reporting Initiative (GRI) and International Petroleum Industry Environmental Conservation Association (IPIECA) reporting guidelines. BG Group is also a signatory to the UN Global Compact and we remain committed to its 10 Principles. We detail how we fulfil this commitment throughout this report but particularly in the Management Approach section.

Conclusion

BG Group's commitment to sustainability is part of our commitment to being a truly great company. Our dialogue with our stakeholders is an essential part of our work – so that we can understand the context in which we operate and the expectations of stakeholders with whom we interface. I hope this report will help reinforce that dialogue and build the partnerships that will help us make good our commitment.

Sir Frank Chapman
Chief Executive

Unconventional gas

Case study: unconventional gas

BG Group is developing unconventional gas – an important source of energy – in the USA and Australia.

The rapid expansion of this industry and some of the technologies involved have raised important questions about safety, the environment and relationships with communities. We recognise these concerns and have sought to address them here and more widely in this report.

How we manage the technical environmental aspects of unconventional gas, such as water use, is described in the Performance: Environment section of this report.

Here we explain more broadly how we dealt with a range of concerns that arose particularly during 2011.

The challenge

In the USA, we are among a number of companies exploring for and producing shale gas: in Texas, Louisiana, Pennsylvania and West Virginia.

During 2011, public concern about safety and environmental issues associated with shale gas intensified. Questions were raised: What is the role of shale gas in energy security? How should the industry be regulated? What information should be publicly available?

In response to this concern, US President Obama requested an urgent report on the industry, which was issued in November 2011. It made a series of recommendations on safety and environmental management.

Meanwhile, in Queensland, Australia we faced some similar issues. Operating as QGC (www.qgc.com.au), we are developing one of Australia's largest capital infrastructure projects, developing and producing natural gas in the Surat Basin and building a pipeline to take it to a new liquefied natural gas (LNG) plant on Curtis Island, near Gladstone. The project will create more than 5 000 jobs during construction and about 700 permanent positions during operations, as well as providing other economic benefits.

This project's scale and impact has opened up a debate about how it will affect society, the economy and the Queensland environment. During 2011, our project and the coal seam gas industry as a whole faced widespread scrutiny, from grass roots protests to a formal Senate inquiry.

There was also public debate over the rights of landholders – who, unlike in the USA, do not own mineral rights – to prevent industry access to their properties and demand greater compensation.

These developments brought into focus the need not only to work in a responsible way but also to engage more fully with an increasingly broad and diverse range of stakeholders.

Our response

In both Australia and the USA in 2011, responding to the heightened public interest in our work, we engaged more actively with key stakeholders.

In Queensland, we took a range of actions, some of which we set out here.

We expanded our team of land and community liaison officers and held several community events, including a water workshop involving environmental and community groups, as well as a public forum on water hosted by the Australian Petroleum Production and Exploration Association. We also held an open day – attended by approximately 1 000 local people – to highlight the importance of health, safety and environmental protection in the gas industry. At our environmental field day in Tara, the community was invited to view and ask questions

about coal seam gas equipment and processes. A business forum we held attracted 130 people representing 95 Queensland businesses, who networked with 20 of our main contractors.

We expanded our public consultation and disclosure work around a seismic survey that took place in the Wieambilla Estates and opened up access to our operations, conducting more than 20 site tours over the year for schoolchildren and environmental groups, among others.

Overall, BG Group will invest A\$150m in Queensland communities by 2014.

In 2011, we spent A\$4.4 million on social projects, including A\$1.4 million through the QGC Sustainable Communities Fund. We also contributed more than A\$600 000 in flood-related funding and invested A\$1250 000 in Gladstone hospital as part of a A\$3.5 million commitment. Other investments focused on education and skills development and capacity-building programmes for small and medium-sized businesses.

In our USA operations, we reviewed and reflected on the report by the US Secretary of Energy Advisory Board Shale Gas Production Subcommittee into the shale industry, and consulted a range of stakeholders, including local communities, state and federal policy makers, regulators, non-governmental organisations (NGOs) and investors to improve our understanding of their expectations and concerns.

We continued to support local communities, through investment in local skills and training. We worked with regulators on key issues such as the disclosure of chemicals used in our operations. We started work to develop additional standards and processes specifically for unconventional gas operations and also to look at emerging best practices in the industry, for example reviewing new services that aim to reduce the toxicity of fracturing chemicals.

This work culminated in BG Group developing in 2011 a public position statement on unconventional gas, published in February 2012. It explains how we work and how we address environmental, social and other issues, and identifies areas that require further attention. It discusses how we manage operational risk in key areas including well and site design, monitoring and testing and water management and how we engage and communicate with stakeholders. It includes commitments to do more on certain issues.

One aspect of our work that attracts special interest from stakeholders is safety, particularly the safety of our assets. In 2011, we dealt with the risk of gas leaks in our Queensland production by launching an investigation of more than 700 wells, triple checking the wells and putting new safety measures in place.

In both Australia and the USA we took action to make our workforce and businesses safer, including developing new training facilities. In Queensland, where we are currently drilling and plan to drill several thousand wells, we set up a training room at an abandoned well site and developed a suite of materials that we are using to train new drilling crews to meet our safety standards. This training pad is the first such facility in Australia and is being replicated within the industry in Queensland.

Looking ahead

The shale and coal seam gas industries are still developing and we know that we need to continue to build confidence in our reliability as an operator with our stakeholders in both Australia and the USA.

In 2012, we will continue to engage openly with stakeholders, to review and, where practical adopt new ways of minimising our environmental impact.

People



Robert Booker, BG Group Executive Vice President, Human Resources

“Sustainability, in the context of Human Resources, means encouraging our people to think about the longer term rather than just focusing on immediate goals. This applies in all contexts, from succession planning and talent management in BG Group to the way we work with people and communities outside the Group.”

Summary

BG Group has seen rapid growth over the last decade, expanding from 1 541 employees in 2001 to a total of 6 625 as at 31 December 2011.

Looking ahead, we want to maintain the commercial flexibility and energy that drove this growth, but also meet new challenges, including developing, training and retaining professionals in new areas.

During 2011, we took steps to strengthen our management team and prepare for the future.

Building an international business

We located more people, particularly those with specialist and technical expertise, close to our operations, especially in the USA.

Leadership, succession and management for the long term

We made changes to ensure continuity at the very top of the Group, identifying candidates to take over as Chief Executive in the future, as well as developing talent for the demanding years ahead.

Safeguarding and developing people

We responded to the political change that swept Tunisia and Egypt and the floods in Queensland, Australia. These events tested our people and our ability to support the communities in which we work.

We continued to address the long-term issues for our industry: finding, training, developing and retaining people to keep pace with the swift rate of technical, regulatory and other change in our markets around the world.

2011: key developments

During 2011, we:

- announced three key leadership appointments which will form the foundation for BG Group's future;
- created and launched a new Contractor Personnel Standard to improve the quality of management of individual contractor personnel;
- launched Emerging Leaders and Managing Essentials programmes; and
- developed global Strategic Resource Plans which look forward a minimum of five years.

Building an international business

In recent years, BG Group has grown fast. From our traditional base in Europe, the Middle East and North Africa, we have expanded with major developments in Australia, Brazil and the USA. Once a UK-centred organisation, today we are a genuinely global Group.

Locating closer to our operations

During 2011, we put in place a new strategy to locate experts closer to our operations in key areas. Our Houston office, which is already the headquarters for BG Group's Americas and Global LNG region, has become the international office base for BG Advance, the part of BG Group responsible for specialist or technical skills. As a global centre for the oil and gas industry, Houston has the international skills and human resource base that we need.

We introduced more measures to globalise our culture. Examples include e-learning language training and initiatives to encourage people to work collaboratively across different regions. We retain an external consultant to help individual employees anywhere in the world develop their language skills and will continue to invest in technology to facilitate this kind of learning.

Leadership, succession and long-term management

Strong senior team

We took steps to secure our future stability and strategic direction. Fabio Barbosa was appointed as an Executive Director and Chief Financial Officer on 31 March 2011, following his recruitment at the end of 2010. His appointment brought to the Board not just his financial and sector knowledge but also his global perspective and experience.

We have put in place a structured process to identify a successor to our Chief Executive, Sir Frank Chapman, who has indicated his intention to retire during 2013. Three internal candidates have been identified and their roles expanded to provide development opportunities as part of the succession process but also to ensure we continue to deliver our growth plans:

- **Fabio Barbosa**, who was appointed Chief Financial Officer in March 2011, took on additional responsibility for the Group's strategy and portfolio development;

People

- **Chris Finlayson** became an Executive Director and Managing Director for BG Advance and is responsible for ensuring we have the right technology and technical capabilities as well as for our exploration strategy and projects programme and assumed Board-level responsibility for the evolution of the Group's organisation; and
- **Martin Houston**, formerly Executive Vice President, Americas, took on the new role of Chief Operating Officer, has Board-level responsibility for all regions and assets and Group-wide business development, and will focus on driving operational performance and project delivery.

Recruiting, retaining and developing the people we need

As a large energy group with a portfolio of major international projects, we need a pipeline of highly skilled people – from front-line geologists, engineers and technicians to vital functional support.

Prospective employees look not just at remuneration but also at other factors, including values, career opportunities and culture, when choosing where they work.

As well as a competitive package we aim to offer:

- a wide range of learning and development programmes;
- global recruitment opportunities; and
- a workplace that motivates and engages employees and is free from bullying, discrimination and harassment.

Diversity

We take the issues of equality and diversity seriously and encourage our partners to do likewise. We believe that by using the talent and skills available in all groups and communities in the countries where we operate, we can build a strong foundation for lasting success. We recognise the importance of diversity on boards. It provides a range of perspectives which undoubtedly has a positive effect on corporate performance. For us, achieving a balance on the Board is particularly important given the increased size, complexity and international reach of our operations and the need for experience across a wide range of fields. Gender is an important aspect of the overall diversity of the Board; however we believe it should not take precedence over diversity of relevant skills and experience and should not become a selection criterion in its own right. The appointment of Vivienne Cox to the Board in February 2012 helps to reduce our gender imbalance as well as adding to our sector experience.

BG Group funds and supports a global women's network, which was set up in 2009. In addition to supporting members, the network acts as a think-tank for the Group to learn about diversity issues and particularly gender diversity. During 2011, there were some good examples of businesses taking action at local level to foster diversity in ways that were most relevant to them. BG India set up a working group to review what diversity meant to the business, developed a local statement on diversity and rolled out an action plan to foster diversity. The team prepared a range of materials, held discussions and developed a plan which was reviewed and approved by the management team. Outcomes were shared with all employees at a town hall and milestones to measure progress set.

In January 2011, BG Trinidad and Tobago was invited to participate in a research project conducted by the Association of Female Executives of Trinidad & Tobago to survey the country for the top five companies for female executives. BG Trinidad and Tobago was awarded top prize

in the medium business category and was also judged as the overall winner of this prestigious award, which recognised the percentage of women and policies designed to support women.

Leadership development

The 2010 employee survey underscored the need to focus on improving leadership. During 2011, we completed a review of our Leadership Development Framework, piloted Managing Essentials, a programme for first-level leaders, and began to develop leadership programmes at all levels in the Group: we plan to roll these out in 2012.

We also introduced an Emerging Leaders programme for a group of senior executives. This programme, designed in collaboration with **Duke Corporate Education** in the USA, aims to prepare BG Group's future leaders early on in their careers. The first module of the programme, which we ran in the UK last November, looked at sharing best practice, encouraging organisational collaboration, exploring strategies for growth and building self-awareness. Further modules, including critical business skills and leadership capability, will be held in 2012 in Australia and Brazil.

"We have been working with BG Group to accelerate their pipeline of 'high potential' individuals towards the most senior roles in the organisation. Having identified this population, the Group knew that focused development would be needed to help these individuals become global leaders.

The first of three modules was held recently and received excellent feedback. As well as working on leadership style, managing a business through a computer-based simulation and hearing about the market view of BG Group from an analyst, the participants interacted with the Group's Chief Executive and several members of the leadership team. By the end of the one-year programme, participants will be better equipped to meet the challenges facing BG Group. They will have explored how to meet the needs of stakeholders, customers and employees.

In addition, the programme is intended to minimise turnover and increase the chances of these talented people fulfilling their career aims at BG Group".

Chelsea Ramage Project Director, Duke Corporate Education

Planning for the long term

During 2011, we developed and implemented human resources (HR) systems and initiatives to support the Group's future business needs, including:

- developing an integrated planning system which will be implemented in 2012;
- drawing up strategic, long-term resource plans for 15 BG Group functions. These set out the skills and competencies needed for the future, looking forward a minimum of five years;
- identifying critical roles across the Group and drawing up succession plans for these; and
- running four intensive training and development programmes to prepare people to take on these roles.

People

Responding to employee views

We use a variety of approaches to stay in touch with employees, both to confirm work is progressing well and to identify concerns. These approaches include employee surveys, town and village hall meetings and smaller group meetings.

We survey employees regularly, with the last survey having taken place in 2010. Our employees gave views on issues including safety, performance, communications, leadership and management. We continue to analyse this feedback, and the ways in which we have responded include setting up task forces and action plans across the Group to analyse and respond to issues raised.

- In our Americas and Global LNG business, for example, we created a task force with representatives throughout the region, which analysed the issues raised in depth and developed a scorecard, focusing on the issues that were of the greatest concern to employees. Actions included requiring all managers to undergo Annual Development Review training and supervisors to undertake a 360-degree appraisal after six months in post as well as the creation of a quarterly regional announcement to publicise people moving into new positions.
- In Singapore, Employee Champions have been appointed and actions taken in key areas, such as improving employees' understanding of the various elements of their remuneration packages by producing Total Reward Statements and introducing quarterly town hall communication meetings.
- In India, employees wanted greater visibility of the management team so a programme of regular face-to-face communications was set up and is proving to be very successful. In response to concerns raised by employees relating to individual performance targets, HR is working with line managers to improve the quality of objective-setting and ensure position descriptions set out clear accountabilities.
- In Thailand and the Philippines, where stress and workload were raised, we held workshops and measured resilience to stress.

These are some of a wide range of examples from across BG Group's regions and functions. We have also introduced Group initiatives, for example the leadership programmes described above, which respond to employee calls for more leadership development and talent management.

Going forward, we expect to do more frequent 'spot' or targeted surveys as well as Group-wide surveys. The next employee surveys are expected to be conducted around the third quarter of 2012 and will be smaller-scale surveys, targeted in particular at those functions and operations that have been working on plans since the last survey, allowing us to monitor progress. We then expect to conduct a full Group survey in 2013. We remain committed to regular surveying of employees.

Employees are informed about significant business issues and BG Group's performance using electronic mail, webcasts, the Group's intranet and in-house publications, as well as DVDs and briefing meetings at each business location. In businesses where we have elected employee representatives, or union representatives, we consult with employee and union representatives appropriately.

Protecting and safeguarding people

Managing through political crisis

The safety of BG Group employees, contractors and their families was paramount throughout the uprisings in Egypt and Tunisia in January and February 2011. Our crisis management structures and processes proved sound and our emergency response systems operated well. All our people in these areas were protected from harm and approximately 380 people, including our employees, contractors and their families, were evacuated when we judged this to be the best course of action.

Throughout the unrest, we continued to produce gas safely from our facilities at Idku in Egypt and Sfax in Tunisia. This was a tribute to the dedication and professionalism of our local people. Key operators and managers remained on site and worked effectively despite significant personal and professional challenges.

"Events in our country were moving very fast. It was impossible to anticipate what would happen next. This made things very difficult on a personal level for many of our people, and at work. The changing conditions around us really put people to the test, but the core of essential staff that made sure our operations continued safely acted with dedication and professionalism. And they did so while working long hours in circumstances that were often quite stressful. We knew it was important for us, and the country, to keep production going. There were lessons for us all about how to keep operations running at a time of real crisis, but all those involved can be very proud of what we achieved."

Faouzi Hadji Administrative Site Manager, BG Tunisia

When evacuating expatriate personnel, we supported other oil and gas companies in the region whose employees faced similar problems. For example, we provided transport for Shell employees as well as our own, sharing aircraft to ensure everyone who needed to be was safely evacuated.

Lessons learnt

Although we were able to respond effectively, we identified areas where we could improve our approach. For example, as a result of our experiences in 2011, we are investigating more sophisticated means of locating personnel – both on and off operating sites – to ensure we can readily locate, contact or gather people in an emergency.

Managing through flooding in Queensland

The flooding that resulted in the devastation and evacuation of entire towns in Western Queensland, Australia was another test of our ability to deal with an emergency. The Incident Management Team made sure that our people and assets were safe. We also worked to help the community through this difficult time. QGC joined the Queensland Murray Darling Committee and volunteer groups to help farmers from the Western Downs with the cleanup and restoration of their properties, donating A\$50 000 to help landowners in flood-affected areas.

People



Contractor personnel management

Finding and retaining people has always been a challenge for the oil and gas industry as we require a flexible and highly skilled global workforce to deliver in often very demanding environments.

Individual contractors account for approximately three quarters of the hours worked by our workforce. It is therefore especially important that these individual contractor personnel understand and reflect our values and are aligned with our culture.

The industry is experiencing a shortage of skilled and experienced contractors in technical disciplines and it is expected that this trend will continue. Therefore we are conscious of the need to ensure that individual contractors working for us meet and maintain our standards.

During 2011, we developed and launched a new Contractor Personnel Management Standard, which is being implemented across the Group. This strengthens BG Group's previous standard, raising awareness of potential risks, clarifying roles and responsibilities and providing a more robust framework for managing individual contractor personnel.

The Standard sets out how we classify and select individual contractor personnel, ensure they are accountable, monitor and audit them and report on their performance. Across these areas, we have introduced new requirements focused on improving the quality of individual contractor personnel and the way we manage them. In Management Systems: Our People we provide more background on our approach to contractor management.

Ethical Conduct



Daniel Silver, BG Group Head of Ethical Conduct
 “BG Group works on major projects across the world, often in environments where there is a high risk of corruption. It is critical that we ensure high ethical standards and transparency among all our people – our own employees, individual contractors and anyone else carrying out work for us.”

Summary

During 2011, we continued to work to manage ethical conduct risk and ensure our Business Principles, which underpin everything we do, are understood and applied.

Readiness for the UK Bribery Act

We worked with the UK government and our industry to develop guidance for companies in our sector on how to respond to the UK Bribery Act which became enforced in law in July 2011 and is still very much a live issue for businesses. As well, we ensured BG Group was well prepared, for instance investing in a major ethical conduct training programme that focused on the Act as well as on the prevention of fraud.

Audit and assurance

We continued our programme of internal audits, which review the controls around the implementation of our Business Principles. This is an important part of how we reinforce the Principles.

Revenue transparency

We monitored key trends and emerging regulation on revenue transparency which can be seen as part of a wider shift towards greater openness and better communication from public and private sector organisations.

2011: key developments

During 2011, we:

- worked with the UK government and developed guidance for companies in our sector on responding to the UK Bribery Act;
- continued a major ethical conduct training programme across BG Group’s businesses around the world;
- commissioned an independent assessment of our approach to addressing the UK Bribery Act requirements; and
- issued updated Ethical Conduct Standards.

Readiness for the UK Bribery Act

In July 2011, the **UK Bribery Act** came into force. It introduces new provisions relating to bribery, extends the crime of bribery covering bribery in the private and public sectors, and creates the criminal corporate offence of failing to prevent bribery.

We have been closely involved in the consultation process for the legislation and the guidance that accompanies the Act. Working through the Energy & Extractive Sectors Working Group, we helped develop anti-bribery guidance for our industry. This guidance was endorsed by the director of the UK Serious Fraud Office and launched by the **Institute of Business Ethics**. Our involvement in this work has enabled us to ensure we are well prepared for the introduction of the UK Bribery Act.

Ethical conduct training

To manage ethical conduct risk, our policy of zero tolerance for corruption and the requirements of our Ethical Conduct Standards must be well understood. This is the focus of the Ethical Conduct Compliance Unit (ECCU), established in 2010.

During 2011, we ran an ethical conduct training programme to prepare for the new UK Bribery Act and more generally to protect BG Group against fraud. Endorsed by senior management, it was led by our General Counsel and had both face-to-face and e-learning elements. By the end of 2011, nearly 7 000 employees and individual contractors – over 65% of our employees – had completed the Fraud and Bribery e-learning training. This mandatory training, which is available in eight languages, encourages individuals to be alert to risks and possible instances of fraud and bribery, and to report concerns.

During 2011, we held our second annual global workshop for Local Compliance Officers to provide them with further support and training.

We worked with a law firm to develop a further training module: Advanced Anti-Bribery and Corruption e-learning. It is aimed at people who are at higher risk of exposure by virtue of the work they do and provides a more detailed understanding of the UK Bribery Act and the US Foreign and Corrupt Practices Act.

With **GoodCorporation** – an organisation that conducts independent assessments of ethical management practices, we also developed an ‘adequate procedures toolkit’ that can be used by different parts of the business to verify the effectiveness of procedures to prevent bribery. We tested the toolkit in Egypt, Norway and Tanzania and we will be using it more widely next year.

Refreshing our Standards

In 2011, we developed a BG Group Leaders Ethical Conduct Checklist to guide our senior people on how to provide leadership on ethical conduct and bribery prevention.

We re-launched the suite of Ethical Conduct Standards following their revision to reflect the requirements of the UK Bribery Act and associated guidance.

To support this re-launch and communicate the enforcement date of the Act, we ran an internal communications campaign, featuring an announcement by the Chief Executive. We expect to reinforce this work with more publicity in 2012.

Ethical Conduct

Speak Up (BG Group’s whistleblowing policy)

Employees and contractors have a duty to alert us (in confidence and, if preferred, anonymously) to any actual or potential breach of our Business Principles, Policies, Standards or legislation, using Speak Up – an independent telephone and online reporting service. This facility is available to anyone who wishes to make a report.

During 2011, 134 cases were reported under the Speak Up facility (2010: 151 cases). Each reported case is investigated or overseen by the ECCU.

More detail about the cases is given below:

- 38% related to reported malpractice (including allegations of breaches of the Group’s Ethical Conduct Policy and Standards, including corruption);
- 33% related to general workplace concerns (including allegations of harassment, discrimination, unfair hiring practices and unfair treatment);
- 19% related to fraud (including allegations of theft or misuse of funds); and
- 10% related to health, safety, security and the environment.

We take any breaches of our Business Principles very seriously. Investigations into 28 cases in the year resulted in actions against individuals, employees or contractors, ranging from training or disciplinary action (from formal warnings up to and including dismissal) to contract termination or other appropriate action. 37 other cases resulted in actions such as changes to procedures and to organisational controls.

Audit and assurance

Our Group Audit team carries out a programme of internal audits to review the processes to promote local awareness and implementation of our Business Principles. In 2011, the team focused on the Human Resources Business Principles and concluded that the processes that underpin them were satisfactory. The audit further concluded that we were prepared for the requirements of the UK Bribery Act and have adequate controls in the areas reviewed.

In advance of the UK Bribery Act coming into force, GoodCorporation also conducted a high-level review of BG Group’s policies and processes relevant to the UK Bribery Act. It concluded that “overall the company

has strong anti-corruption policies and procedures which are examples of best practice in many areas” and that “the benchmarking shows that BG Group is significantly better prepared than many peer organisations and has many elements of best practice.”

GoodCorporation’s review made recommendations to improve BG Group’s anti-corruption programme. Their recommendations were addressed before the UK Bribery Act came into force by the update, re-launch and ongoing implementation of the Group’s suite of Ethical Conduct Standards.

Revenue transparency

Revenue transparency is an increasingly important issue for our stakeholders. Energy companies are increasingly asked to provide information on the revenues they generate in a particular country. Publishing this information ensures governments are accountable to citizens for how they use income from vital national resources. We support transparency of this kind and follow regulatory and other developments closely.

During 2011, we continued to monitor efforts to improve revenue transparency in our sector – such as section 1504 of the USA Wall Street Reform Act (the Dodd-Frank Act) and draft legislation published by the European Commission in October 2011. We are monitoring the similar draft European legislation and have sought stakeholder views on this.

The **Extractive Industries Transparency Initiative (EITI)** is an international standard that asks companies and governments to disclose oil and gas revenues. During 2011, BG Group had interests in the following EITI countries: Kazakhstan, Madagascar, Nigeria, Norway, Tanzania and Trinidad and Tobago¹. Of these countries, Kazakhstan, Nigeria, Norway and Tanzania produced reports under EITI. The reports from Nigeria (for 2006-08) and Norway (for 2009) include details of BG Group payments to governments. We have summarised these in the table below.

During 2011, we also supported EITI at a corporate level, making a financial contribution to the EITI Secretariat in Oslo and attending the 2011 EITI biennial global conference in Paris and selected board meetings as an observer.

	Reported by BG Group	Reported by host government	Difference	Explanation
Nigeria (2006-2008)				
2006 Signature bonus	\$106 500 000	\$106 500 000	0	n/a
Total	\$106 500 000	\$106 500 000	0	n/a
Norway (2009)				
Petroleum tax	NOK (936 421)	NOK (936 421)	0	n/a
NOx tax	NOK 1 206	NOK 1 492	NOK 286	Difference resolved. Details of one payment omitted in initial reporting
Area fee	NOK 34 996	NOK 41 967	NOK 6 971	Difference resolved. Details of some amounts omitted in initial reporting
Total	NOK (900 219)	NOK (892 962)	NOK 7 257	See above

Source: Nigeria Extractive Industries Transparency Initiative 2006-2008 Reconciliation Final Report, 3 February 2011. Extractive Industries Transparency Initiative Reconciliation of Cash Flows from the Petroleum Industry in Norway 2009, 9 November 2010.

¹ Trinidad and Tobago was accepted as an EITI candidate country on 1 March 2011 and it has until 28 August 2013 to complete EITI validation.

Safety, Health and Security



Pat Cook, BG Group Head of Safety

“At BG Group, we feel deeply distressed when we fall short of our own safety expectations. During 2011, we failed to achieve our goal of zero injuries and we are now taking far-reaching action to make sure we improve our performance – like ensuring contractors are 100% engaged and part of our team.”

2011: key developments

During 2011:

- we suffered three fatalities. Performance against our headline personal safety indicator, total recordable case frequency, deteriorated to 1.92 per million work hours in 2011, from 0.94 in 2010;
- our Chief Executive led a Global Safety Week to reinforce BG Group’s safety culture and remind all our people of their safety responsibilities;
- we completed our full internal review of well risk, set up following the Deepwater Horizon incident of April 2010. We also participated in the major industry initiative that aims to prevent incidents of this kind;
- we ran dedicated training courses on major accident hazard awareness and developed an accompanying e-learning module; and
- we took further steps to promote the health of our workforce, encouraging reporting of health concerns and taking action in key areas including: exposure to chemicals, fatigue, extreme heat, and mental health

Summary

During 2011, we took action to reinforce our safety culture, particularly among our contractors, in a concerted effort to improve on our disappointing performance.

Personal safety performance

The need to improve the safety of our work environment and our safety culture was brought home by the tragic death of three people working on behalf of BG Group in 2011. We profoundly regret these losses of life. Our overall performance in relation to personal safety deteriorated in 2011. We are deeply disappointed by this and are renewing efforts to make sure everyone who works for or on behalf of BG Group is safe at all times.

Process safety and major accident hazards

We continued to collaborate with others in the industry to act on the lessons learnt from the Deepwater Horizon incident in the Gulf of Mexico in April 2010. We examined and responded to lessons that emerged from the incident relating to engineering, legal, commercial and insurance risks and continued our training to raise awareness of process safety and major accident hazards.

Crisis management

Our crisis management procedures were put to the test in 2011 by flooding in Queensland and Thailand, political upheaval in North Africa leading to the evacuation of BG Group personnel from Tunisia and Egypt, and anti-piracy planning during the exploration phase of our new activities in Tanzania.

Personal safety and health

We suffered three fatalities in 2011. In March, in Kazakhstan, an unplanned gas release during vessel entry resulted in a single fatality. In May, an amine flash tank ruptured at one of our sites in Louisiana, and the resulting pressure release killed one of the operators standing nearby. In June, in our QGC operations in Australia, a tugboat sank with four persons on board, resulting in one fatality.

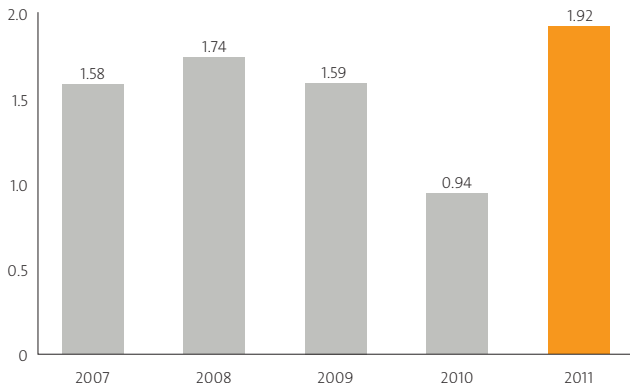
We deeply regret these fatalities. Any loss of life is wholly unacceptable, and our aim, as always, is to ensure that lessons are learnt and our operations made safer. We carried out a detailed investigation into each fatality to understand the underlying causes. At the time of this report, for the first and second fatality, lessons learnt had been circulated and corrective action taken (including redesign of plant, processes and procedures). The investigation into the third fatality is ongoing.

During 2011, we also revised our approach to disseminating the lessons learnt from safety incidents, to ensure useful information gets to the right people in a timely way.

Safety, Health and Security

Total recordable case frequency²

Chart showing total recordable case frequency (per million work hours)



In 2011, BG Group's total recordable case frequency (TRCF), the standard industry measure of occupational safety, was 1.92. This was roughly double our target of 1.0. This disappointing performance was largely due to a higher number of incidents occurring in our businesses in Australia and the USA. We believe a number of factors contributed to this, including the rapid growth of our operations in those countries and resulting dependence on a contractor workforce where skills and experience have been in short supply. We are working to develop expertise and skills in the local workforce. In the rest of the business, TRCF performance across the Group was 0.93 which was marginally improved against 0.94³ in 2010.

Our TRCF target for 2012 is 1.35, an increase against last year's target. Achieving this target will require significant safety performance improvements, particularly in our operations in Australia and the USA. To achieve our target, a number of actions are being taken to improve our safety performance.

In the USA, we took further steps to implement a uniform health, safety, security and environment (HSSE) plan in our joint venture with EXCO Resources, which was set up in June 2010, bringing together two different safety cultures. Actions included extending involvement of employees in HSSE management and performance and introducing a Safe Work Permit Standard and Incident Reporting Standard to good effect. An external consultancy team also reviewed safety culture to identify remaining areas for improvement; these will be addressed through 2012. We also worked closely with our main contractors to ensure understanding of our 'one team' approach and safety expectations.

In Australia, we focused on three key areas: improving contractor management, developing an HSSE Management System and effective Risk Management Systems. Working with our contractors, we ran a major project to minimise driving risk, a key risk on our pipeline project. We planned to set up a logistics hub which we expect to be established in 2012, to maximise transportation of freight by rail and minimise road kilometres travelled, and initiated another 18-month project to improve contractor safety in fabrication yards. We also focused on training and raising awareness, launching a video for our employees and contractors, introducing a core skills training programme for frontline people and setting up a dedicated well pad training facility for contractors, the first such in Australia.

In 2012, we will focus on increasing visible safety leadership, improving the capability, competence and alignment of the HSSE function, and improving collaboration in the emerging industry sector in Queensland to maximise cross industry opportunities to improve contractor and general safety performance.

Other safety performance indicators

TRCF is a 'lagging' safety performance indicator in that it is used to analyse past performance and trends. We also capture information on 'leading' indicators. These indicators test the strength of our controls and can be used to influence future behaviour and performance. They are particularly important as they can signal potential future deterioration in safety performance, and give the opportunity to prevent this from happening. The table below shows this year's indicators, compared with the previous year. We also carry out root cause analysis: reviews aimed at identifying the underlying cause of unsafe behaviours. A total of 462 root cause analyses were carried out in 2011, compared with 484 in the previous year.

We also review high-potential incidents (HPIs) to ensure that we understand why they occurred and learn lessons, so that we can prevent repeat incidents. In 2010 there were 101 HPIs, while in 2011 there were 94.

HSSE leading indicators

	2010	2011
OBSERVATION		
Site tours	2 224	3 270
Self-audits	801	1 111
Competency assessment – operations implementing CAMS ⁽¹⁾	4	10
INTERVENTION		
Hazard reports	47 307	80 941
Behaviour-based safety observations	131 811	113 141

⁽¹⁾ Competence Assurance Management System: BG Group's system for assessing and recording the safety of personnel performing safety critical tasks

² TRCF, the accepted industry-standard safety metric for personal safety, measures the number of injuries per million hours worked. It is the headline indicator of the success of the Group's personal safety programmes. Personal safety statistics (such as TRCF) do not measure the integrity of our major processes and facilities: for that we use a variety of process safety and asset integrity performance indicators.

³ The 2010 TRCF number quoted includes all businesses in the Group in 2010.

Safety, Health and Security

We reinforced our personal commitment to safety

During 2011, we took steps to provide strong safety leadership and to strengthen the BG Group safety culture.

In December, our Chief Executive launched a Global Safety Week to encourage ownership of personal safety behaviour and remind people of their safety responsibilities. Employees and contractors stood down from normal activities and identified activities they should stop, start or continue. We will monitor progress against the key themes that emerged from this work, right across the Group.

One team initiative

Early in 2012, our Chief Operating Officer, Martin Houston, sent a letter headed "One team with a single purpose" to all employees. He asked everyone in BG Group to reinforce their personal commitment to safety, and for all, whether employee or contractor personnel, to work together as a collective to deliver the BG Group safety agenda.

Our goal is that, in the context of safety, there should be no distinction between employees and contractor personnel.

Martin Houston also announced a new recognition programme to be known as the Gold Hard Hat Awards, which will recognise ambassadors for safety, providing examples of good practice or outstanding individual contributions. It will be peer-nominated, open to all and will complement the Chairman's Awards.

Across BG Group, we remain committed to improving safety performance through vigilance, rigorous operational discipline, getting basic safety requirements right and improved contractor management.

Campaigns to promote our Life Savers and Pictogram safety tools

Life Savers

We use BG Group's Life Savers to remind people working on site of safety basics in key areas. Each of the nine Life Savers addresses an area where safety can be compromised (such as lifting, driving, and working in confined spaces) and provides guidance on how to work safely.

During the year, we carried out quarterly awareness campaigns focusing on the Working at Heights, Electrical Safety, Hydrogen Sulphide and Excavation Safety Life Savers. We developed new computer-based learning modules for each of these topics, with more than 12 000 training sessions completed by employees and contractor personnel.

Pictograms

We continued to embed the pictograms that highlight the Life Savers to employees and contractor personnel on site. The pictogram icons depict the safe way of working for each Life Saver, in a way that we have found to be understood and welcomed across diverse cultures and working environments.

"The roll out materials were very useful and the pictograms help frontline workers better understand the risks."

Kishor Bhojwala, Gujarat Gas Company Limited, India

Promoting health and well-being

Illness reporting

The reporting of occupational illness cases continued in 2011 with 26 cases of occupational illness (involving 54 individuals) reported compared with 40 cases (involving 65 individuals) reported in 2010 and 14 cases (involving 24 individuals) in 2009.

Whilst the number of cases reported is lower than in 2010, overall there has been an upward trend in reporting in recent years. We believe this reflects the efforts we have made to encourage occupational illness reporting. We worked with external advisers in 2011 to develop an e-learning training module in occupational illness awareness.

Our analysis of our occupational illness data has highlighted two key concerns: food safety and working in extreme temperatures. As a result, we are developing a food safety e-learning module, while the Group Health team has worked with the business (notably in Australia and the USA) to respond to any heat-related illnesses.

Exposure to chemicals is a potentially significant risk in our industry. During 2011, we started work on developing a chemicals database to give our businesses clear information about the particular chemicals they use, and enable them to identify relevant risks.

Incident data this year reveals that fatigue was one of the root causes in 20% of our total reported incidents. We are working to raise awareness and provide tools to assess and manage fatigue.

Well-being and stress management

During 2011, we worked to reinforce awareness of day-to-day health challenges.

Good mental health and resilience were especially important in crisis situations during the year, such as the civil unrest in Egypt and Tunisia and the aftermath of serious incidents or fatalities. We provided support to those involved and more generally promoted stress management and work-life balance.

Safety, Health and Security

BG Bolivia: Taking the stress out

Since 2005, BG Bolivia's Human Resources department has conducted an annual work-related stress survey to identify employees who may be affected by high levels of stress. From 2007 to 2009, employee-reported stress levels rose by 12%.

Contributing factors were understood to be both external (for example, the socio-political and economic context) and internal (for example, the perceived pressure of new operations or investments).

We found that the reported heightened stress levels affected three key areas: teamwork, leadership and group cohesion.

Using the theme 'Ten Years of BG Bolivia Operations', in 2011 we launched a programme to help people manage and mitigate stress and build their resilience. Activities included team workshops, regular and informal meetings with the area general manager, and a range of team-building and communications efforts. Our main objectives were to motivate, inform and promote teamwork, to recognise individual efforts and to incorporate and reinforce BG Group's new behaviours.

The results were very positive in all three areas, with lower reported levels of high or serious stress and increases in those reporting very low levels of stress.

Process safety and major accident hazards

During 2011, we took a number of steps to review and strengthen our approach to process safety – or ensuring our assets, operating systems and processes are robust. Process safety is a vital complement to managing personal safety – as the oil industry has learnt from incidents such as the Texas City refinery explosion and fire and the Deepwater Horizon blow-out.

Response to the Deepwater Horizon incident

In 2010, in the wake of the Deepwater Horizon incident, we set up a dedicated, internal cross-functional task force, the Group Well Risk Management Team (GWRMT), to review our Group standards, procedures, equipment, emergency systems and behaviours.

The GWRMT reviewed well design, safety procedures, oil spill preparedness, financial and legal responsibilities, containment equipment and procedures and environmental issues. It analysed official investigation reports and took on board the lessons from these as well as working with regulators and contractors.

In 2011, the GWRMT completed its review and we began to implement its recommendations, taking action in a number of areas including:

- disseminating lessons learnt from the incident around the Group;
- amending our key drilling contracts to ensure that our contractors are required to stop work if they have concerns and escalate these to the highest level;
- supporting and participating in a management system audit of one of our drilling contractors to assure they were working to our requirements;
- working with the International Association of Drilling Contractors to influence industry well control standards;
- working to embed our Blow-Out Risk Assessment (BORA) tool – developed in 2010 – to improve how we assess and control the risk of well blow-outs in our operations; and
- reviewing commercial, legal and insurance implications of the Deepwater Horizon incident.

In 2012, the GWRMT will continue to implement recommendations and manage our input to the next phase of the Sub-Sea Well Response Project.

Industry involvement

In 2011, members of the GWRMT also participated in the **International Association of Oil & Gas Producers (OGP) Global Industry Response Group (GIRG)** which has been working on well incident prevention, capping, sub-sea dispersant and containment, and oil spill response.

In May 2011, GIRG's work led to the launch of the Sub-Sea Well Response Project (SSWRP), an initiative involving nine major oil and gas companies including BG Group and set up specifically to design equipment to control a major well blow-out.

This design work was completed in 2011. It is anticipated that Oil Spill Response Limited will procure this equipment in 2012-2013, with assistance from SSWRP, and then maintain the equipment in various storage locations around the globe.

We were also involved in OGP's Wells Expert Committee which made recommendations on rig crew training, well design and operational best practice, and incident information sharing.

We are part of the OGP joint industry project on oil spill response, which is being undertaken with the International Petroleum Industry Environmental Conservation Association (IPIECA) and others such as oil spill response organisations. In 2012, the GWRMT will continue to implement recommendations and manage our input to the next phase of SSWRP.

Safety, Health and Security

CAMS

We have taken steps to strengthen the systems we have in place to ensure that we minimise the risk of major accidents, or, in the event of a major accident, can limit its impact. In mid 2010, we introduced our Global Operations Competency Assurance Management System (CAMS) which enables all BG Group and contractor personnel performing safety critical tasks at operating facilities to demonstrate their competence. It requires our operations to assess, develop and maintain competence against Standards, by assessing frontline personnel (such as Operations and Maintenance Technicians) in the main aspects of their job and on their ability to demonstrate their capability to perform the task. Appropriate training and monitoring is provided to address any shortfall.

Since its introduction, we have been implementing CAMS across BG Group operations in a phased programme, with the majority of our operations being included in the programme by the end of 2013 and new operations added as the Group grows. We made good progress with the programme and by the end of 2011 some 31 000 out of 100 000 assessments or 31% of the total number of assessments were completed. As assessment of competence will continue on all safety critical tasks for as long as a facility is in operation, we have set targets for monitoring implementation and ensuring all our businesses comply.

Major accident hazard training

During 2011, we ran a series of major accident training sessions, building on the success of similar sessions in 2009 and 2010. Ninety senior managers attended these courses, which involve creating explosions, fires and full accident scenarios under controlled conditions.

We also started development of an e-learning module of the programme to support these awareness sessions. We aim to complete this early in 2012 and include it in our Learning Management System so that it is accessible across the Group.

Making the case for safety

Safety cases are a key tool for understanding and managing the risks of major incident hazards.

Following an internal audit in 2010, which examined safety cases across a sample of six BG Group locations, the Safety Case Standard was revised and re-launched in October 2011. We completed reviews of 10 safety cases, assessing how they conformed with the requirements of the Standard and providing feedback.

Contractor safety

Managing contractor risk

Our workforce comprises approximately 6 000 BG Group employees and over 24 000 other workers, including contractors working on our behalf and employees and contractors working for our subsidiaries or in joint ventures in which we have an interest. Our employee and contractor workforces have different risk profiles.

Contractors typically do work that involves inherently higher risk than that carried out by most BG Group employees. In 2011, over 90% of recordable injuries in BG Group involved contractors. This gives us deep cause for concern. During the year we reviewed the most serious incidents from recent years and identified the following root causes:

- lack of compliance with Policies, procedures and systems of work, including the BG Life Savers and risk identification and management; and
- gaps in leadership and supervision of the activity and contract/contractor management.

We have taken a range of steps to address contractor safety, and this remains a key focus for 2012. Our approach includes dedicated training on the ground in key operations, notably in Australia and in the USA as described above. More broadly, we continue to address contractor quality and management. As described in the People section, we developed and launched a new Contractor Personnel Management Standard, which raises awareness of potential risks, clarifies roles and responsibilities and provides a more robust framework for managing individual contractor personnel.

We also revised our Contracting and Procurement Standard, with the new Standard implemented from 1 January 2012. This revised Standard introduces more rigorous criteria for selecting and monitoring contractors and places new responsibility on BG Group people responsible for contracts to communicate our safety expectations to contractor companies, working with them to ensure they can meet them. In 2012, we will develop an HSSE training programme for supervisors, helping them to ensure effective supervision of our workforce, particularly contractors.

Auditing contractor management

We carried out an audit of contractor management in 2011 in our businesses in Australia, Tunisia and the UK. The audit found good practices which should be promulgated across the organisation but recommendations for improvement were made. For example, it was noted that there was scope for improvement in the application of contractor management controls. We are addressing the issues raised, taking actions including simplifying processes, clarifying the roles involved in contract delivery and developing a programme to strengthen the skills of frontline supervisors.

Safety, Health and Security

QGC: Focus on contractor safety in 2011

In 2011, work on our Queensland Curtis Liquefied Natural Gas (QCLNG) operation accelerated, putting pressure on our workforce and presenting significant safety challenges. The business failed to meet its internal safety target.

We believe the management of contractors was a particular factor underlying this. Contractors represent approximately 70% of the QGC workforce but account for 98% of the recordable injuries to date.

During 2011, we made it a priority to analyse and tackle the root causes of contractor injuries, developing a number of initiatives to drive down the unacceptable injury rate.

These included:

- working closely with underperforming contractors;
- tightening contractors' site inspection programmes;
- introducing safety awareness and training initiatives; and
- standardising performance reporting and tackling driving safety by improving vehicle equipment and journey management.

We are also supplementing these safety programmes in three important ways:

- collaboration across the coal seam gas industry in Queensland to improve contractor safety capability, competency and performance;
- developing a "One QCG" HSE management framework that will encompass minimum standards, rules and guidelines; and
- sharper focus on contractor selection, training and induction across the QCLNG project.

We believe that these initiatives will reduce occupational safety risk and deliver improved safety performance in future.

Crisis management

During the year, we worked to ensure all our operations were prepared for crisis. We made significant progress in ensuring that our businesses complied with the Group Crisis Management Standard; at the end of 2011, 18 of the 19 operations complied. We still have more work to do, particularly in joint ventures where we are not the operator. Programmes are underway in Brazil and North America to identify and tackle areas for improvement.

A number of incident management teams were mobilised during 2011, for various incidents including flooding in Australia and Thailand and political instability in North Africa, where we evacuated BG Group expatriates in Tunisia and Egypt. Further information is provided in the People section of this report.

During 2011, we focused on integrating crisis communications into wider business processes. We formalised and enhanced the role of the Group Executive Committee (GEC) in the Crisis Management System. The position of Chair of the Group Crisis Management Team is now filled by a specially trained member of the GEC.

Society



Ramanie Kunanayagam, BG Group Head of Social Performance
 “Natural resources like gas are vital assets for the countries where they arise – and developing them has a major impact on the economy, society and particularly on local people. We must always remember it is a privilege to be invited to develop these resources and work with our partners in a respectful and collaborative way.”

Summary

Responding to change

In 2011, stakeholders in many parts of the world became increasingly vocal and empowered. This was particularly true in BG Group’s operations in Tunisia and Egypt, which found themselves at the heart of the changes that swept North Africa in 2011.

These events remind us that no institution, public or private sector, can take its franchise for granted. Our licence to operate depends on the support not just of host governments, but also of the people and particularly local the community on the ground.

Working with communities

During the year, we made renewed efforts to strengthen our relationships with a number of the communities where we work through open and participatory consultation.

This was particularly important in Australia and the USA where we are developing unconventional gas resources. In the USA, Social Impact Assessments helped us identify and respond to the likely impact of our work on communities. You can read a case study on these operations here.

Similarly, when we prepared to enter new markets or explore in new countries – such as Kenya and Tanzania – we conducted early assessments and consultations to address local concerns.

Creating benefit with a focus on STEM

We increased our global social investment (SI) spend in the year, launching a new theme for investment: education focused on science, technology, engineering and mathematics (STEM), skills development and livelihoods enhancement. We launched programmes to develop technical and other skills in Brazil and supported STEM education in Australia and the UK.

Our Standards and human rights

We updated our Social Performance (SP) Standard, acknowledging the changes made in the revised International Finance Corporation (IFC) Performance Standards. We also reviewed our Group Human Rights Policy against the new UN Guiding Principles on Business and Human Rights, which are designed to encourage businesses to take a more proactive and integrated approach to human rights.

2011: key developments

During 2011, we:

- increased our voluntary SI to \$11.5 million, compared with \$6.3 million in 2010, an increase of 82%;
- joined forces with our partners and joint venture companies in Idku, Egypt, to respond to community needs in the aftermath of unrest – including agreeing to set up a community liaison office;
- expanded our community investment in Tunisia, with emphasis on training and livelihoods;
- continued to address community concerns near our unconventional gas developments in Australia and the USA;
- assessed the potential impact of our entry into Tanzania;
- developed a new Group-wide theme for SI: education, skills development and livelihoods enhancement focused on STEM education and launched new initiatives in this area;
- began the second phase of implementing our SP Standard and updated it to reflect changes to the IFC Performance Standards on Environmental and Social Sustainability; and
- reviewed our Group Human Rights Policy against the new UN Guiding Principles on Business and Human Rights.

Responding to change in North Africa

In 2011, the social and political revolutions in North Africa created a volatile operating environment, with calls for institutional change, economic opportunity, and social justice.

BG Group’s businesses faced – and still face – a challenging operating environment with intensified community distrust, general social unrest and heightened expectations about the benefits our presence can bring.

Society

Case study: BG Egypt

During 2011, we sought to adapt to changing political and social circumstances in and around our operations at Idku in Egypt.

With partners, BG Group has a major investment in Egypt's largest liquefied natural gas (LNG) export facilities at the port of Idku on Egypt's Mediterranean coast. We also supply gas for export to this facility.

Employment is an important issue in Idku, where traditional livelihoods such as fishing are becoming less viable and a growing young population is in search of work. Around 68% of the population is under 25 and there is a poor school retention rate due to the costs of education, with nearly half the population illiterate.

In 2009, we undertook a socio-economic baseline assessment to understand the characteristics of the area and identify issues arising from our operations. This work highlighted the community's vulnerability and the pressures affecting livelihoods.

We responded by approaching the Alexandria Business Association to set up two programmes on our behalf in Idku: the Towards Self Employment project which began to give out grants from mid 2010, and an adult literacy programme. These programmes recruited local grant officers who identified suitable recipients for grants designed, for example, to build skills or enable people to set up businesses. By mid 2011, more than 500 grants had been disbursed, with many success stories. The programmes continue to run.

In 2011, in the aftermath of unrest, we had to take action to respond to a more vocal and mobilised population. Alongside our partners and joint venture companies we set up the Social Performance Collaboration Forum (SPCF), to develop a joint approach to working with local people.

This led to agreement to establish a Community Liaison Office in Idku, to be staffed by local people, and a new programme, Gas Hub Sustainable Livelihoods. The SPCF has also agreed to start other projects such as cleaning up local areas and improving local facilities. The aim of the Forum is to manage social performance risks and identify opportunities in collaboration with Idku Gas Hub partners and joint venture companies.

Case study: BG Tunisia

BG Group is the largest producer of gas in Tunisia, supplying more than 60% of Tunisia's domestic gas production. We operate the Hannibal plant, which supplies gas into the Tunisian gas system, as well as the adjacent Hasdrubal onshore gas processing and liquefied petroleum gas (LPG) facility. Unemployment in the area is high, with near-subsistence agriculture and fishing providing few opportunities for young people.

During 2011, the political and social events of the 'Arab Spring' presented new and important community challenges for our business. During the height of the crisis, we faced picketing and protests relating to labour and community concerns. Our investment in the community helped us maintain local relationships and work through the crisis but, as the immediate crisis subsided, we had to respond to a new, emerging society and continuing instability.

We set up our Sustainable Livelihood Programme (SLP) in 2009 to help local people find new ways of supporting themselves – this responded to the fact that local demand far outstripped the number of jobs we could offer at Hasdrubal. In particular, the SLP – in partnership with the Tunisian Solidarity Bank and regional vocational training institutions – provides micro-finance loans and vocational training for local people.

Working with the community in 2011, we put together a package of measures to build on this and go further in addressing long-term issues. It involves:

- providing job opportunities for community members (50 positions through BG Tunisia contractors for closest neighbours and 70 positions for the wider community);
- increasing the number of micro-finance loans distributed to the community (from \$150 000 to \$1.3 million in 2011);
- implementing a new component of the SLP that provides financing for local graduates to establish new business enterprises;
- continuing the vocational training component of the SLP, with some 60 young people from the local community continuing their on-the-job training in fields such as welding, metal work, mechanics and sewing;
- committing to invest up to \$550 000 in social infrastructure projects identified in consultation with community groups; and
- having discussions with donors, seeking their financial support to tackle the challenge of youth unemployment.

We continue to experience occasional picketing and protests in front of the Group's Hannibal/Hasdrubal operating facilities, largely relating to ongoing labour and community relations concerns. Early in 2012, we reopened the Community Liaison Office, enabling local people to raise concerns with us in a managed, safe and secure way.

Society

Working with communities

Social issues in new developments

Our Social Impact Assessments (SIAs) help us understand and manage the impact of our work on local communities. For more detail on SIAs please see Management Systems: Social Performance.

SIAs in US unconventional gas projects

Pennsylvania

In 2011, we carried out an SIA in Lycoming County in Pennsylvania, where we are producing gas from the local shale formation known as the Marcellus. We understand that this SIA was the first of its kind conducted in this area.

The study found that local people did not differentiate between the various operators working in the area and had a general impression of the industry rather than specific views about BG Group or EXCO Resources. However, they did raise some issues, including concerns about funding from lease payments and royalties, donations and communications between operators and the community.

Although people in Lycoming were positive about job opportunities and business growth, they were generally distrustful of the industry. They highlighted poor communication, the influx of migrant workers, perceived impacts to the environment and damage to roads from heavy vehicle traffic. EXCO has been putting measures in place to address these issues. In late 2011, we recruited a community liaison officer, who is tasked with scoping and implementing the recommendations in the SIA.

Louisiana

In our **2010 Sustainability Report**, we reported on our Louisiana SIA.

It revealed that the most important concerns among consulted communities were heavy vehicle traffic and road deterioration. Local people saw new jobs as the main benefit from our operations.

During 2011, we held regular progress meetings on the SIA as we continued to work to respond to the recommendations in it. Our joint venture partner, EXCO appointed a community liaison officer (a long time resident of the community), and we are funding road maintenance and repair activities. We are also moving water via pipeline where possible, instead of by road.

Click here to read more about how we manage community issues in unconventional gas developments.

Communities are also concerned about the potential impact of our operations on the environment. Our environmental work is discussed in the Environment section of this report.

Addressing potential impacts when entering a new country

As an international energy group we often work in developing countries with acute social and economic problems.

In Tanzania, for instance, there are high expectations of the benefit that development of natural resources will bring in building the country's future. In this new market, which we entered in 2010, we aim to make a positive contribution while managing local expectations.

As we started to explore in Tanzania for the first time, we conducted a macro-level economic assessment with **Oxford Policy Management**, to help us understand how development of the hydrocarbon sector could affect the country. We are discussing the findings with the government and others.

In Mtwara, we operate the port that handles the logistics for offshore activities in Tanzania. We learned that the coastal region has high biodiversity and coastal communities depend on the fragile natural environment for livelihoods. There are also wider stakeholder concerns about offshore oil and gas activities. Our analysis will help us minimise our environmental impact, and take action such as working with contractors to create jobs for local people.

In Kenya, we signed Production Sharing Contracts with the government in May 2011 for two offshore exploration blocks and are carrying out seismic work. We have set up grievance mechanisms and conducted an Environmental and Social Impact Assessment. We also developed a training and awareness programme BG for our private security contractors in Kenya.

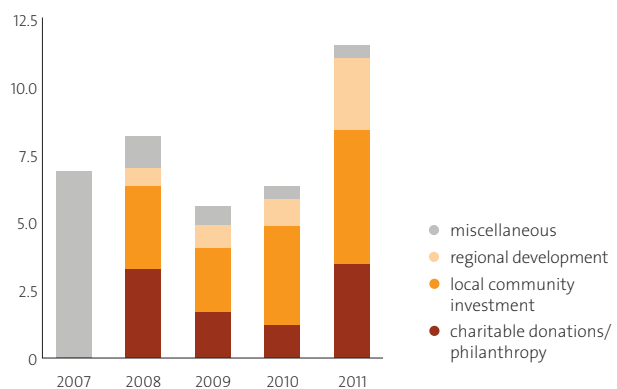
Creating benefit

In 2011, our total Social Investment (SI) spend (mandatory and voluntary) was \$15 million, compared with \$17 million in 2010. Our voluntary SI spend increased to approximately \$11.5 million, compared with \$6.3 million in the previous year, an increase of 82%.

SI refers to contributions made by BG Group to impacted and neighbouring communities and/or disadvantaged groups in wider society. We report on two types of SI spend:

- mandatory: SI spend that is a requirement or obligation under a licence, production sharing contract or other commercial agreement with a host government;
- voluntary: SI spend that BG Group makes on a voluntary basis.

Voluntary social investment spend by category (\$m)



As illustrated, we continue to focus on local community investment and regional development, which grew by 37% and 154% respectively.

Society



Alan West MBE, Chief Executive, Exscitec
 “Working with BG Group’s social investment programme has been inspirational. The BG Group STEM Inspiration Bursary Programme focusing its attention on STEM education is seeking to make a tangible contribution to the pipeline of next-generation scientists and engineers needed by UK plc. The work Exscitec has undertaken supported by BG group has enabled a pilot programme to be implemented for 50 high-ability students from disadvantaged backgrounds. We believe it will provide the motivation for them to participate in STEM in higher education and influence more young people to consider STEM career pathways. The initiative provides a series of focused interventions at Imperial College London locations that will raise awareness of STEM opportunities in higher education and support learning in mathematics and key science disciplines. Work is also in hand to develop programmes and activities that will represent the excitement of the STEM challenge to younger students.”

Case study: supporting STEM education in the UK

In 2011, as part of our commitment to supporting STEM subjects in the UK, we:

- provided funding to the Royal Academy of Engineering to support a national STEM teacher network. The network aims to support STEM teachers and enhance the quality of STEM teaching for pupils aged 11-14;
- supported the Queen Elizabeth Prize for Engineering, newly launched in November 2011, which aims to identify and celebrate outstanding advances in engineering that have created significant benefits to humanity. The Royal Academy of Engineering will be delivering this award on behalf of the Queen Elizabeth Prize for Engineering Foundation; and
- took action to provide STEM education to students from under-represented or disadvantaged backgrounds, notably launching the BG Group STEM Inspiration Bursary Programme, which targets students from less advantaged and under-represented backgrounds in the London area. This is delivered in partnership with **Exscitec**, a company that runs STEM programmes at Imperial College London. The programme offers targeted mathematics, chemistry, physics, and biology sessions over two years, helping students to prepare for university admission. The 50 students selected to participate in the programme are from 35 schools from more than half of London’s boroughs.

Supporting science, technology, engineering and mathematics

In 2011, we launched three new themes for our SI investment which will focus it on education, developing skills and enhancing livelihoods. Within education, we will focus on science, technology, engineering and mathematics (STEM). These are not only critical skills for our industry, but a priority for many governments. STEM education has also been linked to social development and increased social mobility.

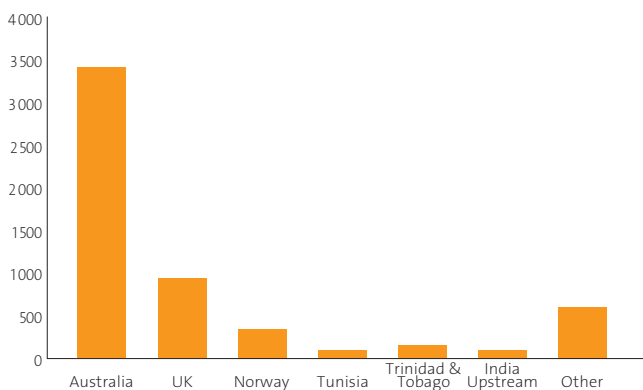
Focusing investment in STEM education, vocational training and livelihood development can therefore help build a local workforce with the skills needed for our industry while furthering a country’s wider development objectives.

As well as the STEM initiatives and the North African investments described overleaf, key areas for ongoing SI spend in 2011 were Australia and the USA. Our work in these areas is also described in the Unconventional gas: case study section of this report.

Local content

Across BG Group, we spent approximately \$5.7 billion on local suppliers in 2011, compared with an estimated \$2.2 billion in 2010. The graph below shows a breakdown of this expenditure.

2011 spend with local suppliers in BG Group operated businesses (US\$m)



In many countries where we work, we have strategies designed to ensure we use local suppliers, recruit or train local people, incubate local businesses or take other actions to ensure ‘local content’ to our work.

In Brazil during 2011, for example, we worked on initiatives to develop local capacity, including a technical cooperation agreement with Petrobras to develop drilling technology, including locally manufactured rigs. Working with SENAI, the National Service for Industrial Training, we are piloting a training programme for welders in Rio Grande do Sul.

Society

Case study: STEM provides a focus for BG Group in Brazil

Since 1994, BG Group has established a sizeable business in Brazil, investing more than \$5 billion in the country. In June 2011, we announced the doubling of our previous best estimate of our reserves, confirming that we expect our Brazil operations to deliver one third of Group production by 2020.

In 2011, we took important steps to ensure this investment delivers value not just for BG Group and its shareholders but also for our partners in Brazil, the Brazilian government and the communities where we work.

During the year, we launched our sustainability strategy in Brazil. Our strategy supports the Brazilian government's priorities in four key areas:

- research and development;
- local content and skilled labour development;
- environment and safety; and
- social investment.

A focus on STEM

We also announced how, in particular, we would meet these strategic goals through investment in STEM education.

Building these skills is a priority for Brazil, as it aims to develop a high-technology economy and maximise local content in the development of its oil and gas resources.

We will be supporting programmes to improve the quality of vocational training and STEM education in Brazil. In 2011, we consulted with Brazilian education institutions and non-governmental organisations about where to target investment in education, and set up partnerships with five leading institutions. Our partners include WorldFund Brasil and the Sangari Institute, two not-for-profit organisations that provide support for STEM programmes.

We are in the process of committing to fund up to 450 international fellowships for Brazilian students to study at leading universities and research centres around the world, investing a total of around \$17.5 million.

Our STEM work in Brazil is closely related to BG Group's broader technology strategy, which, among other initiatives, is partnering

with universities to build 'BG Institutes' which will conduct research on key themes relevant to our industry. A cornerstone of this strategy is the development of a Global Technology Centre (GTC) in Rio de Janeiro, which we aim to open in 2013 and develop as a world-leading centre for oil and gas research. We will also set up progressive technology institutes throughout Brazil in collaboration with Brazilian universities. These initiatives will help both BG Brasil and wider society gain access to the world's best technologies and talent. BG Brasil expects to invest approximately \$1.5 billion in research and development alone by 2025.

Ten BG Group Institutes, which will augment research capacity and increase technical capabilities, are planned by 2016. Through these Institutes and our university partnerships, we can deliver STEM outreach activities.

The first institute, which will focus on carbonate reservoirs, is planned in Brazil at Universidade Federal do Rio de Janeiro (UFRJ); to date, a two-year secondment agreement for a visiting professor between UFRJ and Heriot Watt University in Scotland is in place.

We have begun to discuss with key Brazilian ministries and research agencies to promote the BG Group Institute model and will also be funding up to 450 Brazilian PhD students to take up positions in leading universities around the world.

See also the Climate Change section of this report for more on BG Group's work on carbon management.

Beyond STEM

As well as the STEM work described here, BG Group has a range of other social and environmental initiatives underway in Brazil.

During 2011, we invested in important social and community initiatives through our gas distribution business in Brazil, Comgás. During 2011, Comgás invested more than \$300 000 in social and educational projects.

BG Group has also been working with other oil companies and the Brazilian industry organisation, the Instituto Brasileiro de Petróleo (IBP) to improve safety in the country. We report on our biodiversity initiatives in the Environment section of this report.

We continue to test concepts and ideas through feasibility studies, pilots, and quick-win projects and aim to expand our activity in 2013.

Society

Our Social Performance Standard

2011 marked the start of the second phase of implementing our Social Performance (SP) Standard, a process that will run from 2011 to 2013. In 2011, we focused on ensuring our businesses had the capacity and expertise to deliver their SP objectives and evaluate performance.

At the end of 2010, we commissioned an independent review of the implementation of SP. As we reported last year, the review found that we had rolled out the SP framework to high-priority businesses successfully. It also concluded the framework was consistent with good practice, and that we had made significant improvements to SP approaches on the ground in our businesses.

The review also recommended that we:

- extend training in SP, including with senior management;
- do more to encourage application of the SP Standard, including with non-operated joint ventures;
- look at our community emergency response preparedness; and
- review our approach to setting budgets for social investment (SI).

In 2011, in response to these recommendations we:

- developed training programmes, including a Partnering Capacity Building Programme in partnership with the International Business Leaders Forum (IBLF);
- commissioned external consultants to review our requirements for integrating community aspects into emergency response planning. This resulted in changes to our SP Standard in this area and we also produced a draft guideline on Community Emergency Response Planning and held a workshop on this topic;
- worked with our joint ventures in Egypt, Kazakhstan and the USA and encouraged them to conduct SP and SI in line with the aims of our Standard;
- we also reviewed our SI spend, benchmarking it against our peers, and set out a strategic approach to future SI spending. This resulted in approval to increase our SI spend nearly five-fold by 2014 (from 2010 figures) and the introduction of a new strategic focus on education, skills development and livelihoods enhancement; and
- updated our SP Standard in line with the revised IFC Performance Standards on Environmental and Social Sustainability and developed our quality control processes for assessing compliance with the requirements of the SP Standard.

Human Rights

BG Group is a signatory to the **Voluntary Principles on Security and Human Rights** (VPSHR), and our commitment to respect human rights is laid out in our Human Rights Policy.

Twice a year, we conduct due diligence across our functions (such as Human Resources, Contracts and Procurement, Security, Environment, Social Performance and our in-house Legal team) to ensure that we comply with the Policy and identify any risks of breach. This work continued in 2011 and no incidents of alleged or actual human rights breaches raised through a formal complaint or legal or regulatory process were reported by BG Group businesses. However, functional representatives agreed to enhance the due diligence process in 2012 by standardising internal reporting procedures, clarifying what constitutes a human rights 'risk' or 'incident', and ensuring that functional Policies and Standards specifically refer to relevant human rights risks.

We also revised our approach to be consistent with the **UN Guiding Principles on Business and Human Rights**, which were endorsed by the UN Human Rights Council in June 2011. We invited Professor John Ruggie, former Special Representative to the UN Secretary General for Business and Human Rights, to address senior BG Group leaders on the UN Guiding Principles.

We played an active role in **IPIECA's Human Rights Task Force**. IPIECA is developing an industry approach to human rights due diligence, aiming in particular to ensure that grievance mechanisms are effective and minimise the risk of human rights incidents.

We updated our VPSHR risk assessments in Egypt and Tunisia in 2011, to reflect the changed socio-political and security context in those locations. We conducted new VPSHR assessments in Tanzania, where armed security forces are required to secure offshore activities in coastal East Africa, particularly against the risk of pirate attacks.

We are planning to provide training to security providers in the course of 2012, even though we consider the risk of human rights violations to be low. This is consistent with our commitments to the VPSHR.

Environment



Don Lloyd, BG Group Senior Vice President, Health, Safety, Security and the Environment

“Gas will be a key fuel for the future because it is plentiful and flexible – but only if we can produce it cleanly and safely, showing how we manage risks to air, water and the wider environment.”

Summary

In 2011, we took action to demonstrate our responsible approach to protecting the environment in four areas of our business that are of particular public interest.

Water management

There was increasing interest in how we – and many other sectors of industry – are managing water resources. For us, the development of our unconventional gas portfolio – shale gas activities in the USA and coal seam gas business in Australia – has highlighted the importance of managing responsibly the large volumes of water used and produced by these operations, not just today but for the long term.

Oil spill response

We also continued our work to respond to the major Deepwater Horizon incident in the Gulf of Mexico in April 2011. In partnership with others in the oil and gas industry, we took action to improve our oil spill prevention and response capability.

Biodiversity

We continued our work on biodiversity, participating in a number of initiatives including the ongoing E&P Sound and Marine Life Joint Industry Programme and our cetacean monitoring programme with Chevron, both in Brazil. In November, we were recognised by the Natural Value Initiative (NVI), the international conservation body, for our approach to biodiversity.

Emissions performance

At the same time, we pursued our long-term efforts to reduce air emissions and minimise waste, measuring our performance against our targets. Data is provided at the end of this section.

2011: key developments

During 2011, we:

- continued work to fulfil the water management plan introduced in 2011, taking action in operations around the world. We advanced plans for treating water produced from our operations in areas including Australia, Egypt, Trinidad and Tobago, and the USA;
- developed a public position on how we manage risks in our unconventional (shale and coal seam gas) operations;
- took steps to minimise the risk of major incidents or spills including:
 - participating in the next phase of the industry response to the Deepwater Horizon incident, making good progress with our own review of BG Group well risk;
 - revising and updating oil spill response plans and developing new Group guidance on preparing oil spill contingency plans; and
 - working with a number of our operations worldwide to strengthen their approach to minimising blow-out risk;
- won recognition for our leading approach to managing biodiversity in an independent benchmarking survey; and
- on emissions performance:
 - we reduced the total volume of oil spilled from 659 barrels in 2010 to 285 barrels, a reduction of 57%;
 - we decreased our sulphur dioxide (SO₂) emissions from 23 000 tonnes to 21 000 tonnes, a reduction of 8%; however
 - nitrogen oxides (NOx) emissions increased from 21 000 tonnes to 29 000 tonnes, an increase of 36%.

Water management plan implementation

In early 2011, our Sustainability Committee confirmed a goal for BG Group of achieving excellence in water management. This followed the 2010 review of water-related issues across our business (see 2010 report). To deliver against this goal, we drew up a water management plan with three key areas of focus:

- **People:** investing in our people and skills and improving accountability;
- **Improve:** improving our water management framework including risk management and reporting; and
- **Engage:** engaging and partnering with stakeholders and communicating proactively.

During 2011, we began implementing this plan in our operations around the world and made progress in all three areas.

We focused in particular on Australia and the USA, where we have operations that use and/or produce large volumes of water, looking at solutions both to minimise our use of fresh water and to manage responsibly the water we produce. We developed a Public Position on unconventional gas, which sets out our water management approach for these operations. The Public Position was published in February 2012. The case study of our unconventional gas operations in this report provides more context.

Environment

We also took action elsewhere in the world where we have identified important water risks. In Egypt, we started work to determine the best method to deal with large quantities of water produced offshore. In Trinidad and Tobago, we are working with the Upstream Operators Association to prepare a white paper for discussion with the regulator. This paper will look at the development of regulation governing the management of water from offshore operations. In February 2012, our business in Trinidad and Tobago won an award for work carried out during 2011 to help a contractor, which treats and manages produced water from our operations, to achieve industry best practice.

We appointed a Water Strategy Manager and set up a water working group, while strengthening our risk management, standards and guidance for water management. We updated our reporting requirements, responding to stakeholder demand for more detail. Our 2011 water reporting now contains more information on water withdrawal and water disposal than in previous reports. See the Performance data section of this report for water reporting data against relevant topics. We also expanded our external communications and engagement in key areas, for example, reporting on water to the Carbon Disclosure Project for the first time in 2011.

During 2012, we will continue work to deliver against the water management plan and will update on progress in next year's report.

Water sourcing

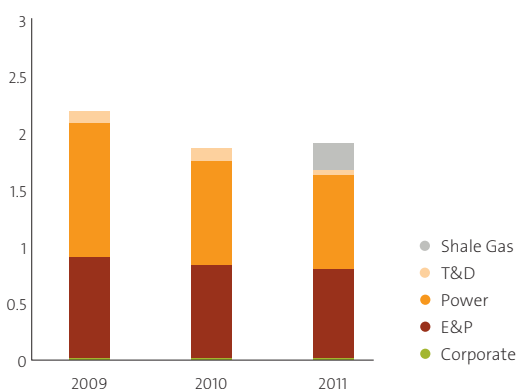
During the year, we continued to seek ways to reduce our freshwater consumption where possible.

- In Louisiana, we continued to use waste water from a local paper mill for our operations, rather than sourcing freshwater¹. A water services company manages this process and also markets the water to other shale gas operators in the area. In 2011, 24.5% of the water we used in our operations in the Haynesville shale (23 million barrels of water) came from the paper mill.
- In Texas, we started a project to look at using deep saline groundwater sources for drilling and fracturing, instead of local freshwater systems. We are also working with the local river authority to source water where it is plentiful, avoiding water sources that are in demand from local communities.

Overall, as shown below, BG Group's global reported freshwater withdrawal in 2011 was 1.9 million cubic metres, the same level as in 2010. The majority of our power business, which uses large amounts of water, was sold during 2010 but this was offset by the growth of shale gas activities in the USA, which also use large quantities of water.

Freshwater withdrawal

(million cubic metres)



Managing the water we produce

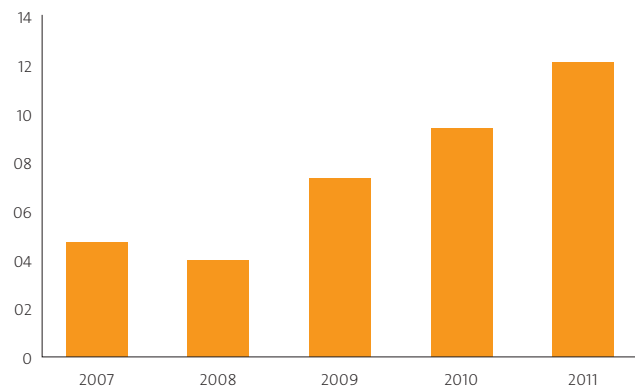
We continued to look at ways of managing the water produced by our operations responsibly and appropriately, aiming for re-use and recycling options where possible.

The total water disposed of by BG Group's operations increased to 12.1 million tonnes in 2011, from 9.4 million tonnes in 2010 (see graph below).

This was mainly due to an increase in 'produced' water (water associated with coal seam gas production) from our conventional hydrocarbon operations as well as the growth of our coal seam gas business in Queensland. Large volumes of water are a by-product of coal seam gas production and as this business grows, the volume of water produced will grow. QGC's peak water production is expected to total just under 200 megalitres (or 200 million litres) per day.

Water disposal

(million tonnes)



In 2011, we advanced major plans to see this produced water – which is naturally too brackish to be used – treated to a standard where it can provide a valuable new source of water in the area. We are developing major reverse osmosis water treatment plants in the Queensland gas fields. These plants remove salt so the water can be used in agriculture, industry and local town supply.

Salt produced by the reverse osmosis process will initially be contained in ponds at two central storage facilities. QGC and other gas companies are researching options for commercial applications for this salt, for example, in manufacturing glass and chemicals. Together with our partners, we are funding four pilot studies of commercial uses for salt, which we expect to be completed in 2012.

We are also looking at alternative options for water treatment such as local irrigation and re-injection of coal seam gas water. Overall, BG Group plans to spend approximately A\$1 billion on treating water from our current operations in Australia.

Cutting the road transport of water

During 2011, we commissioned a pipeline to take waste water from the shale gas development area in Louisiana to suitable deep water well injection disposal sites in Texas. Through our joint venture this initiative has involved a total investment of more than \$21 million over the past three years. The pipeline currently takes up to 19 000 barrels of waste water per day, which was previously being transported by road to disposal sites.

¹ We operate via a joint venture, which is operated in Texas and Louisiana by our joint venture partner EXCO and in Pennsylvania by BG Group and Exco jointly

Environment

This initiative has removed approximately 190 tanker loads of waste water per day from the road system. After some initial operational challenges, the system is now working well and is being assessed for use by other shale gas development operators in the area. The water volume transported could exceed an estimated 20 000 barrels of water per day if others adopt this approach.

A key issue for 2011: unconventional gas and the environment

In recent years, the development of new resources of unconventional gas – for example, gas produced from shale rocks and coal seams – has had a significant impact on estimates of gas reserves worldwide. During 2011, public and private research institutes and other bodies such as the **US Energy Information Administration** (EIA) and the **International Energy Agency** issued reports highlighting the extent of unconventional reserves, made accessible by new technology. In many media reports, conferences and academic papers, shale gas in particular has been seen as a ‘game changer’ because its scale and wide dispersal around the world could transform gas markets.

While shale and other unconventional gases have been welcomed by many as offering a substantial, new and secure supply of energy, there has also been strong public resistance to their development in many quarters. During 2011, there were intensifying public campaigns against shale and coal seam gas around the world, including where we work in parts of the USA and Australia.

The environmental concerns about how unconventional gas is produced are diverse but the main questions asked are:

- Could nearby water sources, particularly drinking water, be contaminated by the chemicals used in hydraulic fracturing (a technique sometimes used to extract unconventional gas)?
- Could local water sources be depleted?
- Will waste water be disposed of safely and without harm to the environment?
- Could hydraulic fracturing, or the disposal of waste water from fracturing operations, cause minor earthquakes or seismic events?
- Will there be long-term impacts on the natural environment around operations, such as on flora and fauna?

During 2011, we made it a priority to understand and address these specific concerns. We also saw that an important aspect of working sustainably was to communicate more effectively about how we manage risks in these high profile operations.

As a result, we developed a **public position statement** of our approach, including a range of commitments about the way we work to develop resources of unconventional gas responsibly and with minimal impact on the environment. A key aspect of our approach is quality, not only of our site and well design but also of our processes and working approach.

Oil spill response

During 2011, we made progress in our response to the Deepwater Horizon incident in the Gulf of Mexico in April 2010.

In 2010, in the wake of the Deepwater Horizon spill, we set up a dedicated, cross-functional internal task force, the Group Well Risk Management Team (GWRMT), to review and assimilate lessons from the disaster which included a review of our Group standards, procedures, equipment, emergency systems and behaviours.

In 2011, the GWRMT completed its review and we began to implement its recommendations, taking action in a number of areas including disseminating lessons around the Group, working with drilling contractors to strengthen standards and procedures and embedding our own blow-out risk assessment tool.

We also participated in the global oil industry group working on well incident prevention and containment, and on oil spill response. In May 2011, this group launched the **Sub-Sea Well Response Project** (SSWRP), an initiative involving nine major oil and gas companies including BG Group and set up specifically to design equipment to control a similar well blow-out.

More information on this and on other industry initiatives in which BG Group participates is given in the Safety, Health and Security section of this report.

In 2012, the GWRMT will continue to implement recommendations and manage our input to the next phase of SSWRP.

BG Group oil spill response plans

In 2010, international experts Oil Spill Response Limited (OSRL) reviewed the spill response plans in six of our businesses: in Bolivia, China, Egypt, India, Trinidad and Tobago, and Tunisia. Their report contained prioritised recommendations for improvements for all six of the businesses reviewed. Since the report’s release in Sept 2010, the Group has taken steps to strengthen its oil spill response procedures, taking into account the recommendations from OSRL (see an example on the following page). We have produced new internal guidance on preparing oil spill contingency plans to enhance their quality and consistency across the Group.

Environment

BG Trinidad & Tobago

We reviewed and further developed our oil spill response capability by:

- conducting a capability review of existing arrangements to address oil spill response contingency planning and preparedness at each operating facility;
- highlighting areas where improvements in response capability are needed;
- updating the oil spill risk profile at each site. This took into account potential oil spill scenarios, oil types, properties, volumes and the impact of potential spills on the receiving environment including any sensitive environmental receptors; and
- revising oil spill plans based on the updated risk profile and other recommendations from the capability review.

In 2011, we undertook Group-level management training exercises for oil spill incidents to enhance our oil spill response arrangements. These included an exercise based on a shipping oil spill scenario. We are working to prepare an oil spill response framework to manage the oil spill risk associated with our shipping activities.

Biodiversity

Biodiversity is an environmental priority for us and we have specific requirements on biodiversity in our Environmental Standard. At Group level, we continued to engage with several biodiversity stakeholder groups (such as IPIECA Biodiversity Working Group, BSR Ecosystem Services Working Group) to monitor evolving biodiversity issues and stakeholder expectations and exchange best practice knowledge with our sector peers.

Natural Value Initiative

We were recognised by the **Natural Value Initiative** (NVI), led by Fauna & Flora International (FFI), the world's first established international conservation body, supported by a number of NGOs and universities, and the United Nations Environment Programme as well as major financial institutions.

In November, the NVI produced a detailed report on the extractive sector and biodiversity ecosystem services, which noted our progressive approach. It compared 30 companies in the oil and gas and mining industries on behalf of a range of major investment firms. BG Group was identified as one of the companies in the oil and gas sector that demonstrated a leading approach to managing biodiversity issues. The review concluded that BG Group has strong management systems in place for corporate biodiversity policy, risk and management:

"Companies demonstrating a leading approach included Anglo American plc, Rio Tinto plc, Xstrata plc, BG Group plc, Eni Spa, and Royal Dutch Shell plc. Such approaches were characterised by strong publicly stated policy commitments on Biodiversity and Ecosystem Services, comprehensive (although not always yet fully employed) risk and opportunity evaluations conducted at a site and corporate level, and well developed management and monitoring systems."

Areas for improvement were also highlighted. These included piloting tools for incorporating ecosystem services analysis into the business (see below) and making more comprehensive disclosures on the nature and location of ecologically sensitive sites and areas of water scarcity.

The full NVI report can be read at <http://www.naturalvalueinitiative.org>

Underwater sound and marine life

We continue to participate in the International Association of Oil & Gas Producers' (OGP's) joint industry programme (JIP) on underwater sound and marine life, which aims to advance and communicate scientific research on sound and its effect on marine life.

2011 was the second year of the JIP three-year study on the behavioural response of humpback whales to seismic exploration sound, with fieldwork now underway. The study, through monitoring migrating humpbacks on Australia's east and west coasts, seeks to improve understanding of the potential impact of seismic surveys on humpback whales.

Ecosystem services

Ecosystem services – the beneficial and diverse resources and processes supplied by natural ecosystems – are becoming increasingly important in environmental policy making, for industry and for BG Group.

We participated in the Business for Sustainability Ecosystem Services Working Group (ESWG) and the Biodiversity Working Group (BWG) convened by **IPIECA**.

In 2011, we initiated a programme of work to build our understanding of ecosystem services and how they can be applied to our business.

Environment

Biodiversity in BG Brasil

The joint industry programme (JIP) on biodiversity in Brazil, in which BG Brasil participates along with other oil and gas companies and other stakeholders active in the Santos basin, continued in 2011.

The JIP will carry out biodiversity research, co-ordinate a calendar of biodiversity initiatives and share data and knowledge among the participants.

BG Brasil's cetacean monitoring programme, sponsored with Chevron, also continued successfully in 2011. The research is determining areas of whale and dolphin concentration, using satellite and radio telemetry to investigate movements, habitat use and behaviour, and collecting biological data.

We also made progress with our project to model the winds and currents in Guanabara Bay – with a view to helping clean up of the bay before the 2016 Olympic Games in Rio de Janeiro. The project also involves an NGO working with teenagers from poor communities.

Habitat and species plans in Queensland, Australia

BG Group has developed detailed habitat and species management plans, covering terrestrial and marine areas, as part of the QCLNG project, in order to mitigate the project's ecological impacts. These plans were agreed with the Australian State and Commonwealth governments in 2010 as part of the Environmental and Social Impact Assessment (ESIA) process. Residual impacts on biodiversity are to be offset in accordance with plans to be agreed with the State and Commonwealth governments.

Environmental performance

This section summarises our 2011 environmental performance in the areas where we measure and supply particular data. Further information is also available in the performance data section of this report and in the **GRI index** disclosures.

Environmental Management Systems

We are committed to ensuring that the Environmental Management Systems (EMSs) at all our major operated businesses are certified to the international environmental management system standard ISO 14001.

At the end of 2011, nine out of 13 (2010 69%) of our major operated interests were certified to ISO 14001. This includes instances where BG Group is sole operator (80% of operated interests or 8 out of 10 of our operated interests) and joint operator (33% of operating interests or one out of three⁵). BG Group continues to work towards full certification for all its operating businesses.

Spills

Our business requires us to use, store and transport liquids including oil, diesel, drilling muds and chemicals. Our equipment, policies and training aim to prevent any unplanned release of solid or liquid material to land or water.

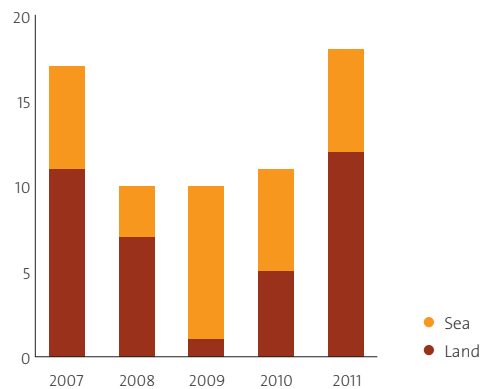
In the Management Approach section of the report, we describe our Environmental Standard, which contains provisions relating to spills and response.

In 2011, the total amount of oil spilled fell by 57% from 659 barrels to 285 barrels. There were 164 hydrocarbon spill incidents reported during the year compared with 54 in the previous year. Of those, 24 were spills to sea, totalling 82 barrels of oil.

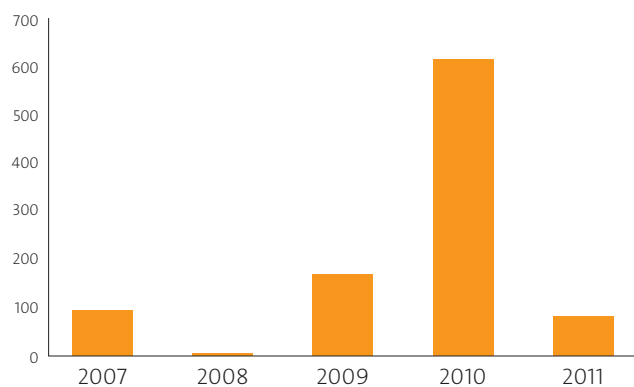
The largest spill was the loss of 142 barrels of condensate from our US gas infrastructure USA operations, which are jointly owned and operated with EXCO Resources. The incident occurred when a 2-inch valve failed, releasing 142 barrels of condensate and 14 barrels of water. The spill was contained on site and remediation work was carried out. Future actions to be taken include enhanced integrity inspection, possible heat tracing during winter months to prevent freezing pipes and the minimisation of inventories held on site.

The largest spill to sea involved the loss of 45 barrels of diesel from our UK offshore operations and occurred during maintenance activities. The spill was monitored and found to be dispersing effectively.

Number of hydrocarbon spills (of one barrel or more)



Total volume of hydrocarbon spills to sea (barrels)



Water spills

While we aim to contain the water produced by our operations so that it is safely stored, transported and disposed of, there have been incidents of uncontrolled release of saline and desalinated water. It should be noted, however, that the water produced from coal seam gas typically has a salt concentration of 2 000-6 000 parts per million (ppm). By way of comparison, seawater has an average salt concentration of around 35 000 ppm.

⁵ The number stated in the BG Group Annual Report and Accounts for 2011 is incorrect and this number has been revised from 25% to 33.33% after the close of the Annual Report and Accounts 2011 for publication and printing, and Exco jointly.

Environment

The total number of water spills was 36, with a total of 1 030 cubic metres water spilled. This compared with 40 spills in 2010 totalling 774 cubic metres.

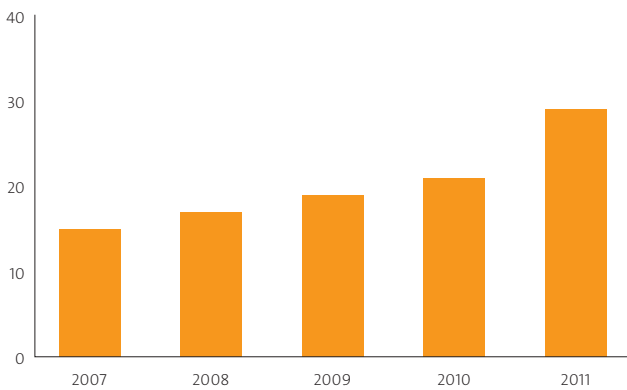
The biggest single incident involved the spill of 556 cubic metres of produced water when a construction pond overflowed at our QGC operations in Australia. The overflow was contained on QGC property and it is QGC's assessment that no environmental harm was caused by the spill. The incident was caused by the failure of an automatic level sensor that detects high water levels in the pond and triggers the transfer of water to a second pond. An additional monitoring device has now been added, along with additional high-level alarms.

Non-greenhouse gas air emissions

Our activities generate air emissions including nitrogen oxides (NO_x) and sulphur dioxide (SO₂) from the burning of fuel and from flaring. Smaller volumes of carbon monoxide and volatile organic compounds (VOCs) are also emitted.

Nitrogen oxides atmospheric emissions

('000 tonnes)



During 2011, NOx emissions totalled 29 000 tonnes, an increase of 36% compared with 2010. Total NOx emissions per unit of throughput increased by 42% between 2010 and 2011. This increase arose primarily in our global shipping business where we reported the impact of a full year of running six dual fuel diesel electric ships. While these ships result in lower greenhouse gas (GHG) emissions, they also result in higher NOx emissions. Excluding the shipping business, the figure for 2011 was 17 000 compared with 14 500 the previous year. Other reasons for the increase were increased drilling emissions and the inclusion of data (at 50%) from our gas infrastructure USA operations, jointly owned and operated with EXCO Resources.

Sulphur dioxide atmospheric emissions

('000 tonnes)



During 2011, SO₂ emissions totalled 21 000 tonnes, a decrease of 8% compared with 2010, due largely to decreased emissions from drilling and from BG Tunisia. Total emissions per unit of throughput fell by 3% between 2010 and 2011.

New legislation in Tunisia will impose tighter restrictions on SO₂ emissions from 2013. In response, we are developing a project to modify our plant to significantly reduce the amount of SO₂ discharged and ensure compliance with these new regulatory measures.

In 2011, SO₂ emissions from Tunisia accounted for 53% of the Group total.

Waste

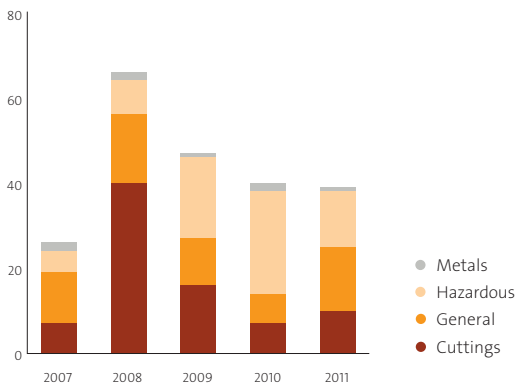
Waste represents an environmental burden, financial cost and potential reputational liability. Conversely, waste minimisation provides opportunities to reduce costs and improve efficiencies. To this end, we commit to minimising resource use and reducing the volume and hazardous nature of wastes by applying the waste hierarchy and adopting best available techniques, wherever practicable.

Our activities generate waste streams including metals, hazardous waste, cuttings, and other material classified as general waste. Information about the total weight of waste disposed, by waste type, is shown in the graph overleaf.

The disposal method is determined by the BG Group Environmental Standard and the BG Group HSSE Performance Monitoring and Reporting Standard.

Environment

Waste disposal ('000 tonnes)



BG Group reported a decrease of 2% in total waste disposal from 40 000 tonnes in 2010 to 39 000 tonnes in 2011. Our operational waste (routinely produced from operations) decreased from 27 000 tonnes to 14 000 tonnes. One of the reasons for the decrease was that during 2010 in Egypt condensate tanks were cleaned and large amounts of sludge were removed for disposal during 2010. This activity was not repeated in 2011. However, one-time or project waste increased from 1 000 tonnes to 9 000 tonnes, due to construction waste disposed from our Kazakhstan operations.

Cuttings waste increased from 7 000 to 10 000 tonnes, primarily due to the nature of onshore drilling activity during the year: different geologies will result in different waste levels.

In 2011, 33% of our total waste was sent for re-use or recycling; this includes 70% of our hazardous waste. The majority of general waste was sent to authorised landfill.

Offshore controlled discharges

Our offshore gas exploration and production processes also result in water discharges that contain oil – known as ‘controlled discharges’. In 2011, the amount of oil in process water discharged from BG Group operations increased by approximately 18 tonnes from 101.5 tonnes in 2010 to 119.8 tonnes. The total quantity of oil in drill cuttings discharged offshore in 2011 decreased by 99 tonnes to 75 tonnes, compared with 174 tonnes in 2010. The primary reason for this change was a changed geographical pattern of drilling activity.

Climate Change



Keith Johnson, BG Group Strategy Director
 “Natural gas is the only widely available fuel that generates electricity flexibly – responding to peaks and troughs in demand – while emitting significantly less carbon than oil or coal. It will therefore play an essential role in the energy strategies of the next decades.”

Summary

In 2011, we were on track to achieve our target, published in 2007, of 1 million tonnes of sustainable greenhouse gas (GHG) emissions reductions by 2012. We reviewed this target and looked ahead at the coming years. Leveraging our skills and innovating to produce gas ever more efficiently and cleanly will be vital as we see gas continuing to play a key part in meeting world energy demand.

See the Management Approach section of this report for more on our emissions target.

The role of gas in carbon reduction strategies

We pursued our strategy of producing gas efficiently and cost-effectively and transporting it to the markets where it is needed. Natural gas offers advantages that have led a wide range of experts, including the **Intergovernmental Panel on Climate Change (IPCC)**, to consider it an important component in global strategies to mitigate climate change.

We explain this view in more detail in the box ‘The role of gas in carbon reduction strategies’.

Research, technology and innovation

We invested in new solutions and approaches to producing gas in a clean and efficient way. Some details are shown below, including our plans for developing a Carbon Institute to look at low-carbon solutions.

Reducing our own emissions

We also pursued a number of projects that helped reduce our own GHG emissions. We are on track to achieve the emission reduction goals we published in 2007, and are now looking ahead. The progress we have made in reducing and reporting on our GHG emissions was recognised by our inclusion in the **Carbon Performance Leadership Index (CPLI)** in 2011. During the year, we debated how to set meaningful targets for the future, given our rising production profile.

Climate change will continue to be a key consideration for BG Group strategy in the future. During 2011, we took the decision to appoint a senior climate change specialist, who joined the Group in 2012.

2011: key developments

During 2011, we:

- carried out GHG reduction projects achieving approximately 221 000 tonnes of sustainable annualised GHG reductions in 2011, helping us move closer to our target of 1 million tonnes of sustainable emissions reductions by 2012;
- made substantial progress in developing plans for a Carbon Institute, an initiative that will research ways to reduce carbon emissions;
- examined, through a series of workshops, technology gaps and approaches for future GHG emissions reduction in our business;
- undertook research into technologies for reducing the carbon intensity of gas production; and
- were included for the first time in the CPLI, which is produced by the **Carbon Disclosure Project (CDP)**.

The role of gas in carbon reduction strategies

We believe gas has an important role to play in helping to reduce carbon emissions and using gas can form part of a climate change strategy.

Like all fossil fuels when burned, natural gas emits GHGs. However, in a world where energy is fundamental to development and nuclear power is currently the only large-scale alternative to fossil fuels, gas has clear advantages:

- natural gas, when burned, produces 40% lower carbon dioxide (CO₂) emissions than coal use and 22% lower than oil. In transport, using natural gas instead of petrol or diesel can reduce CO₂ emissions by 15-25% for an equivalent amount of energy;
- as the world’s fastest growing economies – including China – typically burn coal rather than gas, the impact of substituting gas for coal can be very significant;
- gas-fired power stations can be built quickly and cheaply relative to other types of power generation – and in many markets, the gas infrastructure is largely in place;
- gas can provide a constant supply of energy as and when required, while energy sources like wind or solar are intermittent and cannot be switched on and off as needed to meet peaks and troughs in daily demand. Gas can complement renewable sources;
- liquefied natural gas (LNG) can be shipped around the world, providing a secure and flexible source of supply and mitigating the potential operational, commercial or political risks of regional pipelines;
- natural gas is relatively abundant, particularly following the emergence of new unconventional gas reserves, such as shale, coal seam and tight gas. This makes gas a key element of the energy strategies in major markets like the USA; and
- LNG, as a fuel for shipping, provides a potential opportunity for GHG emission reductions. Global efforts to reduce sulphur emissions and the increase of coastal Emission Control Areas will limit the use of high-sulphur fuel oil. Alternatives including LNG are actively being considered by the industry and we are monitoring these.

Climate Change

Research, technology and innovation

One of the ways we can contribute to tackling climate change is to develop new solutions and approaches to GHG management. In Brazil, we are setting up a Global Technology Centre (GTC), where we will work with universities in Brazil and worldwide on researching carbon management. The GTC, in Rio de Janeiro, is a cornerstone of our strategy in Brazil. It is in development and we aim to open it in 2013, developing it as a world-leading centre for oil and gas research. You can read more about our work in Brazil in the Social performance section of this report.

BG Group technology hubs focus on carbon management
 In 2010, we launched the concept of 'technology hubs' – centres of expertise that will lead research and development programmes. Among other goals, they were set up to address environmental issues such as emissions management. They work in partnership with academic and other institutions and can implement field trials.

One of the first two technology hubs established was the carbon management and gas utilisation hub. It aims to reduce BG Group's carbon intensity by reviewing and investing in technology where feasible.

- During 2011, we made progress with a number of carbon reduction projects:
- studies of leading energy technologies including fuel cells;
 - studies looking at carbon emissions during the gas life cycle and how to reduce them;
 - studies into carbon capture and storage technologies and how they might apply to BG Group; and
 - a research programme with CO₂CRC, an international research organisation in Australia, into residual trapping of CO₂ in deep aquifers.

In particular, we conducted a life cycle analysis of GHG emissions – from gas production at source to the end user – in our main operations and markets. We worked in partnership with Imperial College, London, and evaluating gas supply chains from our businesses in Australia, Brazil, North Africa and the USA.

The purpose of the study was to understand how emissions from gas compare with coal, to identify the principal points of emission and to understand where to focus emission reduction efforts. The study will contribute to our thinking about the role of gas in climate change strategy, including techniques such as carbon capture and storage.

BG Group institutes: working with world-class universities
 Our technology strategy involves working with world-class universities in research projects that focus on a specific technology challenge. To do this, we are creating BG Group institutes. The plan is that each of our hubs will either partner with an outside organisation or set up its own institute. As the first example of this, we set up a dedicated coal seam gas centre at Queensland University. One of the institutes will focus on carbon and be linked to the work already underway through our carbon hub.

Technology workshops look at cutting emissions
 During 2011, we ran a series of workshops aimed at exploring how we can reduce GHG emissions. The workshop results will help define our future GHG reduction approach and identify projects we can run through the GTC or the proposed Carbon Institute.

The workshops identified more than 100 opportunities to cut emissions. After assessing the risks and benefits, we developed budget proposals for the most promising opportunities, which we can pursue independently or with partners.

Innovation award: carbon modelling of CO₂-enhanced oil recovery applications, Brazil

In our fields offshore Brazil we plan to use a technique known as CO₂-enhanced oil recovery to increase the reserves we can recover – and to capture carbon-related emissions that would otherwise contribute to global warming.

- In doing this, we need to understand the balance between environmental risks and benefits, including:
- how much additional energy we consume in handling CO₂;
 - how much additional production we can achieve; and
 - how much carbon we can return to the reservoir.

We developed a model to assess our GHG emissions through the life of the field, highlighting the lowest emission options.

To do this, we set up a multi-disciplinary team to interpret and incorporate information from: drilling and well tests; floating systems; carbon recovery and reinjection; reservoir conditions; and residual releases to the environment. We included export and downstream activities.

The model shows how carbon management can be integrated into our business and applied to other areas as well as the Santos Basin.

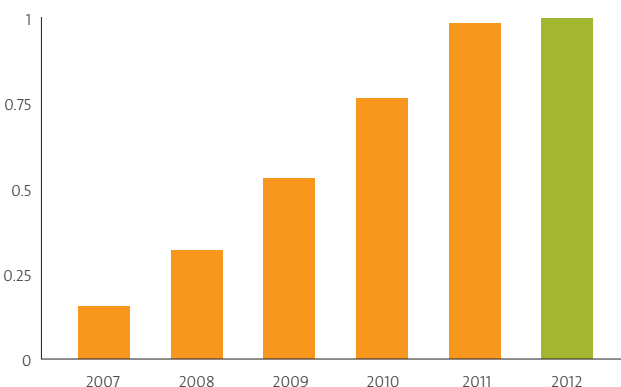
The initiative provided new information, helped us evaluate environmental risks, supported our evaluation of carbon intensity per production unit and illustrated priorities for future investment in technology. The outputs are also supporting our GHG target setting process post-2012.

Reducing our own emissions

We made good progress reducing our GHG emissions in 2011 and are on schedule to achieve the target, published in 2007, of 1 million tonnes of sustainable reductions by 2012. This is measured against a no-action base case.

Greenhouse gas reduction: progress against target

Annualised reductions (million tonnes)



Climate Change

See the Management Approach section of this report for an explanation of how we set the 2012 target.

In 2011, we completed projects which delivered annualised GHG reductions of approximately 221 000 tonnes against our target of 200 000 tonnes. Cumulatively, we achieved 985 000 tonnes of annualised sustainable reductions since the beginning of our programme. Our target for new reduction projects to be delivered in 2012 is 67 700 tonnes and we have identified the projects that will deliver this, including the continuing replacement of cast iron pipe in our Comgás gas distribution business in Brazil and the use of a liquid recovery system on well operations in Kazakhstan. Together, these are expected to cut over 41 000 tonnes of GHG emissions.

The Carbon Disclosure Project

In 2011, for the first time, BG Group was included in the **Carbon Performance Leadership Index (CPLI)**, which is produced by the **Carbon Disclosure Project (CDP)**. The CDP recognised us for the action we are taking to reduce, manage and report on emissions and mitigate risks to the business from climate change.

We were the only energy company and one of just 29 companies from the FTSE Global Equity Index Series (Global 500) to be included in 2011. The CDP recognises that we understand the business issues related to climate change and build climate-related risks and opportunities into our core business. The success of BG Group's greenhouse gas sustainable reduction target was an essential factor in the Group's inclusion in the CPLI.

BG Group was an early contributor to the CDP and we continue our involvement today. The CDP is an independent not-for-profit organisation holding the largest database of primary corporate climate change information in the world. It publishes climate change data from 3 000 organisations worldwide. It aims to assist the development of solutions to climate change and water management by putting relevant information at the heart of business, policy and investment decisions. The index provides an evaluation tool for institutional investors holding \$71 trillion in assets.

Examples of key projects to reduce emissions in 2011

During 2011, the largest reduction in emissions came from the use of aero-derivative turbines in a compression project in Egypt, described below.

BG Egypt – West Delta Deep Marine

To cut emissions from our operations in Egypt, we chose to use higher-efficiency turbines (aero-derivative turbines) in our West Delta Deep Marine offshore operations. As the fields here are ageing and require compression, more energy is needed to extract hydrocarbons from the reservoir.

We calculate the choice will reduce GHG emissions by 150 000 tonnes per year.

The project in Egypt was the first to use turbines of this kind in this way. Additionally, the units will use low-NO_x (nitrogen oxides) technology.

The need to address environmental issues was identified early in the project process, including the need to commission a best available techniques (BAT) review.

We also allowed time to improve design and overcome local barriers to the adoption of a new technology. Historically, in this region, there has been a general reluctance to move away from accepted practices.

Using BAT: the Knarr FPSO project

We are currently involved in a major programme of leasing and owning Floating Production Storage and Offloading Vessels (FPSOs) for use worldwide.

The Knarr FPSO project, currently in design in Norway, demonstrates our commitment to using BAT to minimise GHG emissions. The FPSO will be used to develop a discovery in the Knarr field, offshore Norway.

The project team has identified a series of design proposals that will improve process efficiency at the same time as reducing GHG emissions. This will be achieved by integrating the heat and cooling demands across the facility and selecting equipment configurations that reduce emissions as the field operations mature.

The role of best available techniques

One of the key tools we use to aid emission reduction is to consider BAT. You can read about this in Management Systems: Environment.

BAT is an internationally accepted methodology that requires us to use the most effective and advanced engineering practices and methods for environmental protection without unreasonable cost.

All our operated assets are required to undertake BAT assessments. An internal carbon price is factored into these. By attaching a cost to carbon appropriate for the particular region, we promote low-carbon investment in design processes.

Climate Change

Towards a new GHG reduction target

As we approached the final year in our current emissions reduction target, we reviewed progress and considered the best approach to setting a new target beyond 2012. This is complex, as we need to set a meaningful goal against a rising production profile.

We have examined:

- GHG emission forecasts from our businesses;
- estimates of possible GHG reductions from new developments;
- opportunities for reducing GHG emissions from shale gas operations in the USA and the development of the Santos Basin in Brazil;
- management tools to drive improved energy management within the business; and
- opportunities arising from technology research and development programmes to help define BAT in the future.

Work is ongoing at the time of publication. In our 2012 Sustainability Report, we will confirm how we have performed against our current six-year target and set out a new target for the future. See the **Management Approach** section of this report for more information.

Scope 1 emissions

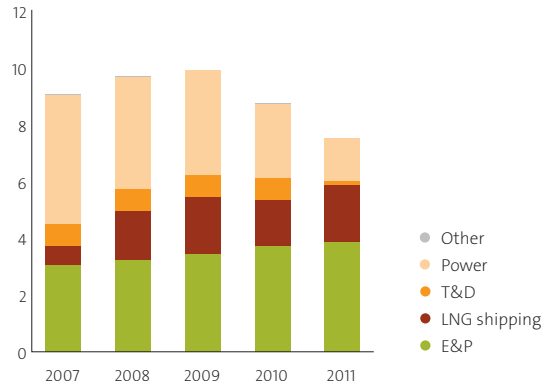
Scope 1 emissions, as defined by the international Greenhouse Gas Protocol Initiative, are those arising directly from sources owned or controlled by the reporting entity.

In our activities, the main categories of Scope 1 emissions are fuel use, flaring, venting, fugitive losses (leaks or other irregular emissions of gases from equipment) and distribution losses.

In 2011, operations directly under BG Group's control emitted 7.5 million tonnes of GHG, a decrease in absolute terms of approximately 1.2 million tonnes (14%) compared with 2010.

BG Group GHG emissions: by business

(million tonnes CO₂e)



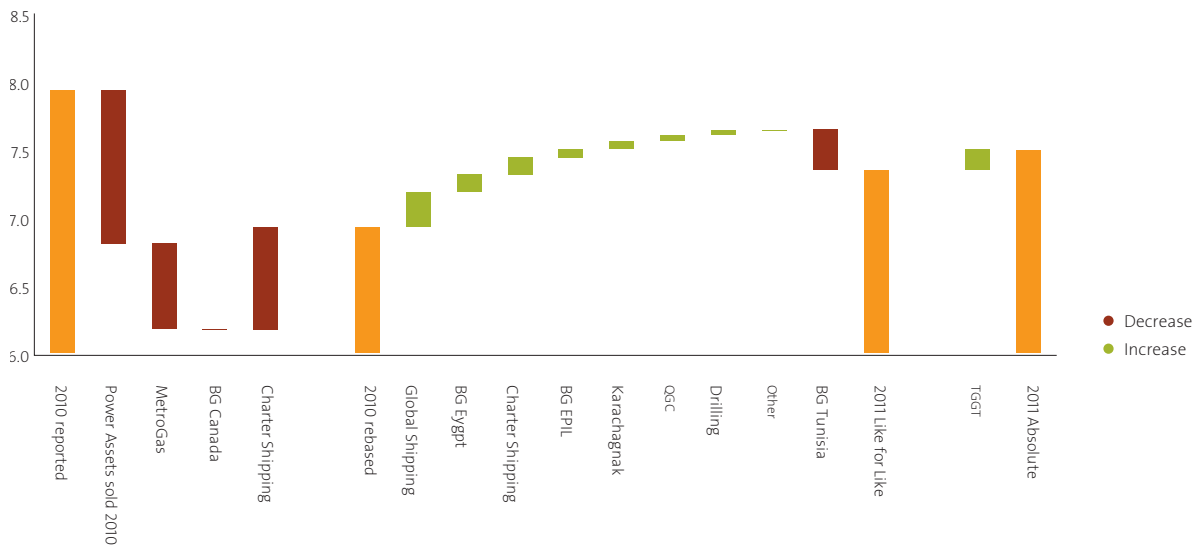
Like-for-like emissions data (comparing 2010 and 2011 across the same asset base) shows an increase in emissions from operated sites of 0.5 million tonnes (6%) from 2010 to 2011. The principal reason for the increase was an increase in global shipping.

The Group also measures GHG emissions on an equity share basis, reporting emissions in line with the Group's equity interest in operations, including where BG Group is an investor but not operator. For example, we have a 21.73% interest in the Nexen-operated Buzzard oil field, located in the UK North Sea. Its GHG emissions are not included in BG Group total operated emissions because we are not the operator. However, 21.73% of the total reported GHG emissions from the Buzzard field are included in our equity-share-based GHG reporting.

GHG emissions on an equity share basis decreased by 1.6 million tonnes (13%) to 10.6 million tonnes compared with 2010.

Climate Change

BG Group – operated emissions (million tonnes CO₂e)



Scope 2 emissions

Indirect, or Scope 2 emissions, as defined by the international **Greenhouse Gas Protocol Initiative**, are those resulting from the consumption of purchased electricity, heat or steam.

BG Group's only significant purchased energy is electricity. We calculate indirect GHG emissions from electricity consumption by applying country-specific emission factors (reflecting the average GHG emissions per unit of electricity produced on a country-by-country basis) to electricity purchased.

In 2011, businesses directly under the control of BG Group purchased electricity that emitted 18 000 tonnes of GHG when originally generated at source. This compared with emissions of 24 000 tonnes in the previous year.

Scope 3 emissions

BG Group's Scope 3 emissions, in line with international guidance, include indirect GHG emissions not covered by Scope 2 and therefore relate to emissions arising from the use of our sold products. We estimate that our Scope 3 emissions totalled 87 million tonnes in 2011 compared with last year's value of 88.7 million.

While recent progress has been made in developing accounting and reporting standards for life cycle and corporate value chain emissions, there is as yet no definitive methodology for calculating Scope 3 emissions. There is also considerable potential for duplicating emissions along the energy chain.

Targets

People

Our targets in 2011	Actions taken in 2011	Our targets in 2012
Implement talent management and succession plans for all key senior positions in BG Group and ensure alignment of recruitment and development processes.	≈ Ongoing. Draft talent structure exists, subject to agreement from Group Executive Committee	Finalise the succession and development plans for key leadership positions, in preparation for a new Chief Executive.
Develop a strategic overview people resource plan.	≈ Ongoing	Launch our Employee Value Proposition, both internally and externally.
Embed the BG Group Behaviours (rolled out in 2010) into the organisation's culture.	≈ Ongoing. Education and development continues across the organisation	Complete the reviews of BG Group's global resourcing needs, talent management, graduate development and leadership model.

Ethical Conduct

Our targets in 2011	Actions taken in 2011	Our targets in 2012
Launch revised Speak Up Policy, Ethical Conduct Policy and associated Standards.	✓ Completed	Refresh and re-launch the BG Group Principles into Practice booklet.
Communicate the implications of the UK Bribery Act to employees identified as being at risk.	✓ Completed	Roll out the Advanced Anti-Bribery and Corruption e-learning to high-risk groups.
More than 65% of employees (with access to the intranet) to have completed the Fraud and Bribery e-learning during 2011.	✓ Completed	Use the 'adequate procedures toolkit' (to test the effectiveness of procedures to prevent bribery) in the business.

Safety

Our targets in 2011	Actions taken in 2011	Our targets in 2012
TRCF (total recordable case frequency) per million work hours of 1.00.	✗ TRCF of 1.92 achieved	TRCF per million work hours of 1.35.
Ensure 80% of planned safety performance meetings held with contractors.	✓ 79% more contractor safety meetings were held than originally planned	90% of all high-risk Contractors' safety performance to be tracked through the Performis system.
Conduct a crisis management exercise in each operated asset.	✓ 95% of assets carried out a crisis management exercise, 100% of all operated assets	

✓ Signifies completed We worked on this target in 2011 and completed all the associated tasks.	≈ Signifies ongoing We made some progress on this target but did not complete all the associated tasks	✗ Signifies not completed
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Targets

Society

Our targets in 2011	Actions taken in 2011	Our target Group in 2012
Establish Group guidelines on emergency response procedures for communities.	✓ Completed	Initiate work stream to investigate how to report on BG Group's wider socio-economic contributions.
Establish two social performance partnerships to enhance strategic social investment.	✓ Completed (International Business Leaders Forum (IBLF), Excitec)	Conduct IBLF accredited partnership training in a minimum of four operations.
Review the Social Performance Standard against revised IFC Performance Standards.	✓ Completed	<p>Establish five new social investment projects across the Group, consistent with Group-wide themes of education, skills development and livelihoods enhancement.</p> <p>Develop guidelines on grievance mechanisms in line with the UN Guiding Principles on Business and Human Rights, and update grievance mechanisms accordingly in at least two operations.</p> <p>Increase year-on-year social investment spend in the majority of BG Group-operated businesses.</p>

Environment

Our targets in 2011	Actions taken in 2011	Our targets in 2012
Establish Water Management Work Group/develop detailed strategic water management plan.	✓	Develop and roll out Group water management Standard and water management planning guidance, for use in BG Group operations and projects, as appropriate to the level of risk from water-related issues.
Establish plan to further develop environmental practitioner capabilities.	✓	Develop 2013-17 Group Environment Strategy.

Climate Change

Our targets in 2011	Actions taken in 2011	Our targets in 2012
Achieve annualised GHG emission reductions of 200 000 tonnes.	✓ Completed	Report and deliver on the 2012 1 million tonnes GHG emission reduction target.
Continue to quantify and report on status of performance towards our 2012 GHG target.	✓ Completed	Define and quantify new GHG target post 2012.

✓ Signifies completed We worked on this target in 2011 and completed all the associated tasks.	≈ Signifies ongoing We made some progress on this target but did not complete all the associated tasks	✗ Signifies not completed
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Performance data

People

	2011	2010	2009	2008	2007
Employees worldwide (average for year)	6 472	6 171	6 079	5 395	4 949
of which employed outside of UK (average for year)	4 496	4 211	4 163	3 639	3 286
Employees working away from home country	679	646	623	623	582
Employee turnover ^(a)	11%	11%	7%	9%	9%
Women in workforce ^(a)	29%	28%	28%	25%	25%
Senior management team percentage women ^(a)	10%	10%	10%	10%	10%
Senior management team percentage of non UK/US nationals ^(a)	23%	21%	19%	16%	16%
Speak Up/Whistleblowing cases	134	151	125	70	40
Cases with actions against individuals as a result of Speak Up investigations ^(b)	28	24	15	n/a	n/a

(a) Data not available for Comgas and Gujarat Gas businesses, representing approximately 25% of employees.

(b) In 2010 the reporting methodology for actions as a result of Speak Up investigations was changed. 2009 reported cases only included cases where disciplinary action was taken. 2010 and 2011 data includes reported cases where actions ranged from training requirements to disciplinary action.

Performance data

Safety, Health and Security

	2011	2010	2009	2008	2007
Fatalities – employees	0	0	0	0	0
Fatalities – contractors	3	2	2	3	1
Total recordable case frequency – employees (per million work hours)	0.67	0.63	0.84	0.88 ^(a)	0.79 ^(a)
Total recordable case frequency – contractors (per million work hours)	2.35	1.04	1.83	1.98 ^(a)	1.84 ^(a)
Total recordable case frequency – total workforce (per million work hours)	1.92	0.94	1.59	1.74	1.58
Reported occupational-related illness frequency	0.49	0.56	0.22	0.14	0.17

(a) Employee/ Contractor split not reported in prior years, and therefore not subject to assurance.

Performance data

Social Performance (\$000)

	2011	2010	2009	2008	2007
Charitable donations/philanthropy	3 436	1 211	1 670	3 239	n/a
Local community investment	4 949	3 613	2 365	3 088	n/a
Regional development	2 618	1 030	828	632	n/a
Miscellaneous	481	474	712	1 211	n/a
Sub-total voluntary contributions	11 484	6 328	5 575	8 170	6 847
Contractual obligations through production-sharing agreements	3 780	10 684	3 113	1 115	3 326
Total contributions	15 264	17 012	8 688	9 285	10 173

Social performance data was previously reported in pounds Sterling (£).

Performance data

Environment

Non greenhouse gas emissions

Non-GHG Emissions ('000 tonnes)

	Venting	Fugitive	Flaring	Fuel use	Electricity generation	Distribution losses
Carbon monoxide	–	–	2	12	0	–
Nitrogen oxides	–	–	1	25	3	–
Sulphur dioxide	–	–	13	8	0	–
Volatile organic compounds	7	2	1	1	0	1

Non-GHG Emissions ('000 tonnes)

	Total 2011	Total 2010	Total 2009	Total 2008	Total 2007	t/MMBOE 2011	t/MMBOE 2010	t/MMBOE 2009	t/MMBOE 2008	t/MMBOE 2007
Carbon monoxide	14	12	10	9	8	33	28	22	21	22
Nitrogen oxides ^(a)	29	21	19	17	15	68	48	43	40	38
Sulphur dioxide ^(b)	21	23	29	31	17	50	52	66	72	44
Volatile organic compounds	12	12	11	11	11	27	27	25	24	28

Energy use

Energy use (GWHrs)

	Gas	Electricity	Oil	Total 2011	Total 2010	Total 2009	Total 2008	Total 2007
Energy use	25 627	32	2 897	28 556	31 014	36 505	36 001	33 909

Waste disposed

Waste disposed ('000 tonnes)

	Waste by Disposal Route						Total 2011	Total 2010	Total 2009	Total 2008	Total 2007
	Authorised landfill	Incineration	In situ disposal	Treatment/discharge	Reuse/recycling	2011 On-site storage					
Cuttings	4	0	6	–	0	2	10	7	16	40	7
Metal	0	0	0	0	1	0	1	2	1	2	2
General	12	0	0	0	1	0	13	7	11	16	12
Hazardous	3	1	0	1	10	2	15	24	19	8	5
Total	19	1	6	1	12	4	39	40	47	66	26

Water disposal

Water disposal ('000 tonnes)

	Groundwater/reinjection					reused/recycled by third party			
	Open Marine	to freshwater aquifer	to non-freshwater aquifer	Inland sewerage system	Soil water/irrigation	Evaporation	Freshwater	Non-freshwater	
Produced water		4 981	20	133	57	56	802		
Oil in produced water		0	0	–	–	–	–	–	
Process water		–	–	44	243	–	–	–	
Oil in process water		–	–	–	0	–	–	–	
Other waste oily water		–	–	8	–	–	–	–	
Oil in other waste oily water		–	–	0	–	–	–	–	
Associated water		–	–	–	–	–	4 914	818	
Flowback water		–	–	9	22	–	–	–	
Total oil		0	0	0	0	0	0	0	
Total water		4 981	20	194	322	56	5 716	818	

Performance data

Water disposal ('000 tonnes)

	Total 2011	Total 2010	Total 2009	Total 2008	Total 2007
Produced water	6 049	–	–	–	–
Oil in produced water	0	–	–	–	–
Process water	287	9 386	7 335	3 945	4 718
Oil in process water	0	0	0	0	0
Other waste oily water	8	–	–	–	–
Oil in other waste oily water	0	–	–	–	–
Associated water	5 732	–	–	–	–
Flowback water	31	–	–	–	–
Total oil	0	0	0	0	0
Total water	12 107	9 386	7 335	3 945	4 718

Water withdrawal

Water withdrawal ('000 tonnes)

	Desalinated associated water	Desalinated ground water	Ground water	Desalinated seawater	Seawater	Municipal water supplies	Rain water	Reused/recycled	Surface water	Waste water (third party)
Freshwater use	–	1	220	–	–	475	3	77	1 127	1
Non-freshwater use	–	–	–	26	11	–	–	70	–	–
Total	–	1	220	26	11	475	3	147	1 127	1

	2011	2010	2009
Freshwater use	1 904	1 857	2 190
Non-freshwater use	107	–	–
Total	2 011	1 857	2 190

Controlled discharges

Controlled discharges ('000 tonnes)

	2011	2010	2009	2008	2007
Drill cuttings	10	15	29	45	30
Oil in cuttings	0	0	1	2	2
Muds	13	15	25	62	29
Total	23	30	55	109	61

Performance data

Spills to the environment

	2011	2010	2009	2008	2007
Number of hydrocarbon spills to land	140	37	14	14	29
Number of hydrocarbon spills to sea	24	17	43	17	15
Number of hydrocarbon spills	164	54	57	31	44
Number of hydrocarbon spills to land (of one barrel or more)	12	5	1	7	11
Number of hydrocarbon spills to sea (of one barrel or more)	6	6	9	3	6
Number of hydrocarbon spills (of one barrel or more)	18	11	10	10	17
Total volume (bbls) of hydrocarbon spills to land	203	42	9	58	368
Total volume (bbls) of hydrocarbon spills to sea	82	617	170	6	94
Total volume (bbls) of hydrocarbon spills	285	659	179	64	462
Number of produced water spills to land	36	40	38		
Total volume of produced water spills to land (m3)	1030	774	–		

Notes:

2007–2010 data has been updated to include Charter Shipping data which has been included in line with best practice. Chartered vessels on charters greater than 6 months are now included.
 Water withdrawal data not available from TGGT.
 Waste data not available for TGGT, Morcellus and QGC

Performance data

Climate Change

Greenhouse Gas emissions - Summary

Greenhouse gas emissions ('000 tonnes CO₂e) from operations under BG Group control

	Total 2011	Total 2010	Total 2009	Total 2008	Total 2007
Scope 1	7 507	8 716	9 897	9 673	9 058
Scope 2	18	24	30	–	–
Total gross controlled emissions	7 525	8 740	9 927	–	–

Greenhouse gas emissions intensity (Scope 1 & 2) ('000 tonnes CO₂e/mmboe)

	Total 2011	Total 2010	Total 2009
E&P	13	13	12
Global Shipping	26	22	27
T&D	3	10	10
Power	671	724	700

Greenhouse gas emissions – Scope 1

Greenhouse gas emissions ('000 tonnes CO₂e)

By source	2011	2010	2009	2008	2007
Venting	676	643	634	599	687
Fugitive	19	6	5	8	18
Flaring	559	795	706	705	583
Fuel Use	4 623	3 902	4 101	3 658	2 483
Electricity Generation	1 526	2 614	3 683	3 944	4 537
Distribution losses	104	756	768	759	750
Total GHG	7 507	8 716	9 897	9 673	9 058

By GHG (in '000 tonnes of carbon dioxide equivalent)

	2011	2010	2009	2008	2007
Carbon dioxide	7 064	7 665	8 836	8 644	8 022
Methane	381	985	981	948	961
Nitrous oxide	62	66	80	81	75
Total GHG	7 507	8 716	9 897	9 673	9 058

By business segment

	2011	2010	2009	2008	2007
E&P	3 852	3 723	3 417	3 202	3 046
Global Shipping	2 007	1 605	2 015	1 739	669
T&D	118	770	778	771	761
Power	1 526	2 614	3 684	3 944	4 537
Other	4	4	3	17	45
Total GHG	7 507	8 716	9 897	9 673	9 058

Greenhouse gas emissions intensity ('000 tonnes CO₂e/mmboe)

	2011	2010	2009	2008	2007
E&P	13	13	12	12	12
Global Shipping	26	22	27	28	27
T&D	3	10	10	9	9
Power	671	723	697	690	698
BG Group	18	20	22	22	24

Performance data

Greenhouse gas emissions – Scope 2

Greenhouse gas emissions ('000 tonnes CO₂e)

By source	2011	2010	2009
Purchased electricity	18	24	30

By business segment

E&P	10	9	8
Global Shipping	–	–	–
T&D	4	5	5
Power	0	5	13
Other	4	5	4
Total GHG	18	24	30

Greenhouse gas emissions intensity (tonnes CO₂e/mmboe)

	2011	2010	2009
E&P	33	32	27
Global Shipping	–	–	–
T&D	91	60	63
Power	196	1454	2416

Greenhouse gas emissions – Equity share data

Equity Share GHG emissions	2011	2010	2009	2008	2007
GHG emissions ('000 tonnes)	10 611	12 232	13 862	13 839	14 478
Equity share ('000 tonnes GHG/mmboe)	28	33	37	37	39

Independent Assurance Report

Our scope

BG Group commissioned Two Tomorrows (Europe) Limited to undertake independent assurance of its Sustainability Report 2011 as published at www.bg-group.com/sustainability2011 for the following areas:

- sustainability performance data for the year ended 31 December 2011, as published in the Performance data section; and
- BG Group's self-declared Global Reporting Initiative (GRI) application level of A+ of the GRI "G3" Guidelines as published in the GRI index section.

Our approach

We performed our work using Two Tomorrows' assurance methodology which is based on our professional experience and international assurance standards, including the International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements Other Than Audits and Reviews of Historical Financial Information'.

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance conclusions. We are providing a 'limited level' of assurance. A 'reasonable level' of assurance would have required additional work at Group and site level to gain further evidence to support the basis of our assurance conclusions.

We used the BG Group's Data Methodology Appendix which sets out how the sustainability performance data are measured, recorded and reported, as the basis of the Reporting Criteria for undertaking our assurance work. We also used the GRI Quality of Information Principles to evaluate the performance data.

Basis of our opinion

A multi-disciplinary team of sustainability and assurance specialists performed work at Group and site level. Our assurance work included the following:

- interviewing senior management responsible for the management of sustainability, the Sustainability Report 2011 and data reporting systems;
- visiting a sample of two BG Group assets (BG Tunisia and BG EPIL, India) to review the systems and processes used at the country head office level to collect and report the sustainability performance data at Group level;
- reviewing and sample checking the sustainability performance data measurement, collection and reporting processes at Group level;
- reviewing how the sustainability performance data was represented in the Performance Data section and within the relevant Performance sections of the report;
- reviewing a draft report for consistency with the IPIECA, API and OGP Oil and Gas Industry Guidance on Voluntary Sustainability Reporting 2010; and
- assessing the GRI index for compliance with the GRI application level requirements for A+.

Responsibilities of the Directors of BG Group and of the assurance providers

The Directors of BG Group have sole responsibility for the preparation of the Sustainability Report 2011. In performing our assurance work, our responsibility is to the management of BG Group, however our statement represents our independent opinion and is intended to inform all of BG Group's stakeholders including its management. We were not involved in the preparation of any part of the report. However, having reviewed and provided feedback on drafts of the report, in a number of instances changes were made to the final version.

We provided two additional services to BG Group in 2011: an independent report review, benchmark and stakeholder interview exercise; and an independent benchmarking of industry greenhouse gas reporting and targets. We have not been involved in the implementation of any of the recommendations made during the course of these reviews.

Our core team comprised Jon Woodhead, Kate Martin, Dick Dalley, Gareth Manning and David Keddie. Further information, including individual competencies relating to the team can be found at:

www.twotomorrows.com

Our conclusions

On the basis of the work undertaken, nothing came to our attention to suggest that:

- the sustainability performance data for the year ended 31 December 2011, as published in the Performance data section, is not prepared in all material respects with the Reporting Criteria; and
- BG Group's self-declared GRI application level of A+ of the GRI "G3" Guidelines as published in the GRI index section is not fairly stated in all material respects.

Independent Assurance Report

Our key observations and recommendations

We will provide a confidential management letter of our observations and recommendations made during the course of our work to BG Group management. Without affecting our assurance opinion, our key observations and recommendations are summarised below.

We have agreed with BG Group that the Company will consider the following related issues during the year ahead:

- strategic oversight of the Group's overall approach, including direction setting, integration between functions related to sustainability on an ongoing basis, coverage of longer-term strategic risks and opportunities, and the development of short and long-term targets.
- a greater forward-looking focus in future sustainability Reports, and additional detail on the BG Group employee and contractor profile and management approach; and
- how to capitalise on improvements in stakeholder engagement and materiality review by further refining these processes in 2012, and using the outputs to inform the consideration of the overall approach to sustainability and future reporting.

Our key recommendations relating to specific issues and functions are:

- Greenhouse gas (GHG) target: we understand that work is on-going by BG Group to develop a new GHG target beyond 2012. BG Group are considering a range of options for the new target, including absolute and normalised targets, coverage of Scope 3 emissions and setting baseline and stretch targets.
- Biodiversity, employee diversity and inclusion: to ensure that examples of good practice are replicated across the Group, we recommend that BG Group should consider the development of a Group-wide approach to biodiversity, and also to employee diversity and inclusion.
- data collection and reporting systems: we observed well developed systems and processes for the collection and reporting of the sustainability performance data at Group level. Our asset visits highlighted the following opportunities for improvement:
 - hours worked: we noted varying processes for tracking and reporting hours worked at asset level. We conducted additional review and analysis at Group level and were able to conclude that this did not materially affect the Group total recordable case frequency. We recommend that BG Group should enhance guidance provided to assets on data collection, reporting and review processes for hours worked via the appropriate HSE Standard.
 - social investment: we noted varying quality of record keeping for reporting voluntary social investment expenditure in two assets. We conducted additional review at Group level and did not find any other instances. We recommend improvements to the data collection, record keeping and review processes at asset level.

Two Tomorrows (Europe) Limited
London
2 April 2012



Jon Woodhead
Director

Two Tomorrows (Europe) Limited trading as Two Tomorrows is an international corporate sustainability agency. We deliver deep insight, strategic advice and pragmatic support to major companies, enabling them to create long-term value by doing business sustainably.
www.twotomorrow.com

Learning from our assurance 2011



Areas for improvement identified in 2010 assurance process	Status	Our progress in 2011
<p>1. BG Group should continue to improve the data collection and reporting skills of environmental practitioners in its business. This is key to maintaining robust, reliable and timely data for environmental reporting and management.</p>	<p>Ongoing</p>	<p>We have reviewed and strengthened our environmental data collection and reporting processes. Since Q1 2011, we have collected, analysed and reported internally our environmental performance. This has led to significant improvements in the quality, accuracy and timeliness of data reporting.</p>
<p>2. In light of the significant recent expansion of the Group, PricewaterhouseCoopers recommended a continued focus on working with management and employees of newly acquired operations to ensure a consistent understanding and application of BG Group's Policies and Standards.</p>	<p>Ongoing</p>	<p>Progress of new businesses against our Internal Control Framework is monitored through the Governance Self Assessment (GSA) process. This requires management level reporting to the Group Executive Committee and Company Secretary to assess the effectiveness of the Group's core controls within their areas of responsibility and to report any significant weaknesses.</p> <p>BG Group did not acquire any new businesses during 2011. However, QGC became part of the BG Group in late 2008, while BG Group entered Tanzania in 2010 and Kenya in 2011. BG Group is currently exploring in these two countries and BG Group relevant Standards and Policies are expected to apply.</p> <p>During 2011, we continued to work with QGC management in Australia to build understanding and application of BG Group's Policies and Standards, including dedicated visits to QGC on the ground. Relevant Heads of Function are responsible for working with QGC towards full compliance with our functional Standards.</p> <p>More generally and across all our businesses, we have taken steps to ensure BG Group businesses worldwide have easy access to Group Policies, Standards and Guidelines.</p> <p>During 2010-11 BG Group ran a project to simplify our ICF and the Policies, Standards and Guidelines that govern what we do and make these more accessible to all businesses across the Group. Our Policies are also available on our BG Group website and we can share our Policies and Standards with our joint-venture partners and our contractors. The revised ICF also makes it clearer to our businesses and our employees and other personnel who work for us what their particular responsibilities and our particular expectations are and we communicate changes or updates through quarterly announcements and email cascades.</p>

Learning from our assurance 2011



Areas for improvement identified in 2010 assurance process	Status	Our progress in 2011
<p>3. A significant proportion of the Group's activities are conducted through jointly operated or non-operated assets. While BG Group cannot mandate the health, safety, security and environment (HSSE) practices at such operations, PwC recommended that BG Group continue to use its influence at these operations to encourage them to work towards the high benchmark set by BG Group's own HSSE Policy and Standards.</p>	<p>Ongoing</p>	<p>Under the current ICF we apply our Policies and Standards in all joint-venture operations where BG Group is the operator. When participating in joint ventures not under BG Group control we encourage the adoption of similar policies and standards.</p> <p>In 2012, the application of the ICF to our joint ventures is being further clarified in a new Standard to form part of the ICF which we expect to be launched later this year. The Standard will confirm the expectations for the application of the ICF to the different types of joint ventures in which BG Group participates and in particular in relation to joint ventures not under BG Group control. We will report on this in more detail in next year's report.</p> <p>PwC's recommendation referred specifically to our alliance with EXCO Resources in the USA, whereby we acquired a 50% interest in EXCO acreage in Texas and Louisiana in 2009. This is non-operated. It refers also to our subsequent 2010 joint-venture with EXCO Resources, through which we acquired a 50% interest in EXCO Resources operations in the Appalachian basin. This is jointly operated. We also have a midstream jointly operated joint venture TGGT.</p> <p>In all three joint ventures, we worked closely with EXCO management during 2011 to encourage adoption of BG Group standards. We monitor progress in jointly operated joint ventures using a gap analysis against our own core controls.</p> <p>More generally, in the Society section of this report, we give examples of other actions taken to encourage joint-venture partners to adopt our approach to social performance.</p>

Learning from our assurance 2010



Areas for improvement identified in 2009 assurance process	Status	Our progress in 2010
Develop the Group's Business Risk Management Process, introducing a wider range of sustainability risks and supplementing quarterly reporting with real-time online reporting.	Ongoing	The Business Risk Management Process has been improved to include a wider range of sustainability risks, introducing separate categories for social performance risk, ethical conduct risk and well engineering risk. Work on real-time online reporting is ongoing.
Develop existing materiality criteria to allow future sustainability reporting to focus more precisely on the most material issues.	Completed	The Group further developed the processes for determining the most material items for the Sustainability Report, including improving the criteria by which issues are prioritised.
Focus on assuring the sound statistical base for our contractor safety data, including controls over data for smaller contractors paid for work delivered.	Completed	In 2010, we have revised our incident reporting and analysis standard to give clearer definitions for 'work relatedness' and which contractor hours should be recorded. A decision flow diagram has been introduced to support the decision making of when to include/exclude contractor data. The Group continues to focus on ensuring all appropriate data is captured for both contractors and employees.