

BG International Limited

Annual Report and Financial Statements

For the year ended 31 December 2016

Company Registration Number: 902239

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Strategic report for the year ended 31 December 2016

The Directors present their Strategic report for BG International Limited (the "Company") for the year ended 31 December 2016.

The Company is one of the entities within the "Shell Group". In this context the term "Shell Group" and "Companies of the Shell Group" or "Group companies" means companies in which Royal Dutch Shell plc, either directly or indirectly, has control either through a majority of the voting rights or the right to exercise a controlling influence or to obtain the majority of the benefits and be exposed to the majority of the risks. Companies in which Group companies have significant influence but not control are classified as "Associated companies". Royal Dutch Shell plc, a company incorporated in England and Wales, is known as the "Parent Company" of the Shell Group. In this Report "Shell", "Shell Group" and "Royal Dutch Shell" are sometimes used for convenience where references are made to Royal Dutch Shell and its subsidiaries in general. These expressions are also used where no useful purpose is served by identifying the particular company or companies.

Business review

The Company is a wholly owned subsidiary of BG Energy Holdings Limited. The Company is involved in the exploration for, and production of, oil and gas hydrocarbons in the United Kingdom and overseas.

The Company's most recent activities include:

United Kingdom Continental Shelf (UKCS)

The Company is operator and indirectly holds a combined 100% interest in the Everest field, split between the Company (97.6%), BG International (CNS) Limited (1.88%) and BG Norge Limited (0.52%). Gas produced from Everest is exported via the CATS pipeline and produced liquids are exported via the BP operated Forties Pipeline System ("FPS") to the Kinneil processing plant. Everest operates and manages the CATS Riser platform on behalf of the CATS owners. Production from Everest in 2016 was 6.45 million barrels of oil equivalent ("mmboe") (2015: 2.83 mmboe).

The Company owns a 100% interest in the Lomond field. Gas produced from Lomond is exported via the CATS pipeline and produced liquids are exported via FPS to the Kinneil processing plant. The Company completed a major maintenance and asset integrity campaign on Lomond in 2015. The Lomond platform provides production facilities for the Chevron operated Erskine field, in which Shell Group holds a combined pre-unitised interest of 32%, split between the Company (29.3%) and BG North Sea Holdings Limited (2.7%). Production from both Lomond and Erskine in 2016 was 1.89 mmboe (2015: 2.91 mmboe).

The Company holds a 30.5% interest in the Judy/Joanne (J-Block) gas condensate/oil fields (operated by ConocoPhillips), and a 35% stake in the Jade gas condensate field (operated by ConocoPhillips). Jade gas and liquid production is transported to the Judy platform and commingled and processed with the J-Block streams, before being exported to shore via the CATS pipeline. Liquids are transported to Teesside through the Norpipe system. Production from J-Block and Jade fields in 2016 was 2.74 mmboe (2015: 4.07 mmboe). The Jasmine field (operated by ConocoPhillips) lies 9 kilometres east of the Judy platform and straddles Blocks 30/6a and 30/7a. The Company has a 30.50% equity stake in the field. Production from Jasmine in 2016 was 3.65 mmboe (2015: 5.52 mmboe).

Shell Group holds the largest participating interest in Jackdaw, a discovery which lies close to the Jade field. The Group's combined interest of 40.94% is split between the Company (37.89%) (operator) and BG International (CNS) Limited (3.05%). Jackdaw is currently in pre-sanction concept selection stage with expected project sanction in 2018 and first production targeted for 2022.

Strategic report for the year ended 31 December 2016 continued

On 9 February 2016, ConocoPhillips (6.5%), JX Nippon (3.91%) and Maersk (29.19%) completed their withdrawals from Jackdaw with their participating interests being sold to the Company and the continuing Jackdaw partners (OMV and ENGIE). BG International (CNS) Limited (3.05%) also withdrew and transferred its entire participating interest to the Company. Following completion of the withdrawals the Company continues to remain as operator and holds the largest participating interest in Jackdaw (64.2%).

On 28 June 2016 ENGIE issued notices of withdrawal from Jackdaw with the Company agreeing to take ENGIE's entire non operated 9.8% interest. Following completion of the ENGIE withdrawal, the Company will continue as operator and will hold the largest participating interest in Jackdaw (74%).

The Company has a 15.98% interest in the 900 metre SEAL Interconnector Link (known as the "SILK" pipeline), operated by Total. The SILK pipeline provides direct access from the Shell operated Shearwater Elgin Area Line (known as the "SEAL" pipeline) to the UK-Continent Interconnector pipeline (a 235 kilometre pipeline operated by Interconnector (UK), which connects the Bacton gas terminal to Zeebrugge in Belgium). Negotiations are underway to disconnect the SILK pipeline from the IUK terminal and ultimately decommission.

The Company indirectly owns other interests in the UKCS via its wholly owned subsidiary undertakings BG Norge Limited (Everest) and BG International (CNS) Limited (Armada, Elgin-Franklin, Glenelg, Jackdaw, Maria, SEAL pipeline, GAEL Pipeline and Seymour).

During 2016 the Company impaired certain tangible assets at the Everest field resulting in a loss of £4.70 million (2015: £316.00 million at the Lomond, Armada Hub and Everest field).

Norway

The Company, through its wholly owned subsidiary BG Norge Limited, held a 60% equity interest in the Norwegian Gaupe field and a 45% interest in the Knarr field. In September 2016, the subsidiary sold its interests in the upstream activity in Norway to another group company A/S Norske Shell and has since deregistered its Norwegian branch.

Tanzania

The Company's subsidiary, Shell Exploration and Production Tanzania Limited, is the operator of offshore Blocks 1 and 4, in which it has a 60% interest. An extensive drilling campaign started in 2011 and to date the Group has had a 100% success rate with 16 exploration and appraisal wells and five additional drill stem tests showing flow rates. The Company currently estimates gross total resources in current discoveries across its Tanzanian interests to be approximately 16 tcf, with extensive further potential to be explored in the remaining exploration prospects. In October 2014, the Company provided formal notice of withdrawal from Block 3 and the Government approval was received in October 2016.

The Company drilled two wells in 2016 to meet local product sharing agreement requirements which turned out to be dry wells.

The Company, together with its JV partners, is also progressing work on the LNG site and pre-FEED activities for a potential LNG project. The LNG project achieved two key milestones in 2014, the first was signing of the Heads of Agreement with the other international oil companies participating in the project and the second was the signing of the memorandum of understanding relating to the acquisition of the LNG site with the Government of Tanzania on 4 April 2014. The LNG project will continue with pre-FEED activities and host government agreement negotiation with the Tanzania Government throughout the rest of 2017.

Strategic report for the year ended 31 December 2016 continued

Kazakhstan

The Company, through its wholly owned subsidiary undertaking BG Karachaganak Limited (BGK), owns a 29.25% interest in the Karachaganak field in north-west Kazakhstan. The Karachaganak field is one of the largest oil and gas condensate fields in the world. Production was 37.79 million barrels of oil equivalent (mmboe) in 2016 (2015: 33.52 mmboe).

In 2016, 8,934 million cubic meters of sour gas was exported for processing to Orenburg Gas Plant (2015: 8,799 million cubic meters), 656 million cubic meters of dry gas was produced at Karachaganak processing facilities for own requirements (2015: 756 million cubic metres) and 8,040 million cubic meters of sour dry gas was injected into the reservoir at the Karachaganak Field (2015: 8,652 million cubic meters). This injected volume is equivalent to approximately 45.6% (2015: 47.5%) of the total field produced gas.

Egypt

The Company, through its wholly owned subsidiary, BG Delta Limited, has a 50% interest in the West Delta Deep Marine Concession (WDDM) and a 25% shareholding in Burullus Gas Company SAE (Burullus), formed by the WDDM Concession holders to undertake exploration, field development and operations on their behalf, supplying hydrocarbons to the domestic market and international markets via the Egyptian Liquefied Natural Gas facilities. During 2016, net production from WDDM was 11.72 million barrels of oil equivalent (mmboe) (2015: 14.03 mmboe). Over the past few years, higher than agreed gas volumes have been directed to the Egyptian domestic market, impacting volumes available for LNG export.

In addition, the Company has two offshore exploration licences with 60% working interest; El Burg Offshore concession and North Gamasa Offshore concession.

Nigeria

The Company, through its wholly owned subsidiary, BG OKLNG Ltd, had a 14.25% interest in the proposed liquefaction plant at Olokola (OKLNG) on the south-western coast of Nigeria. On 24 May 2012, BG OKLNG Ltd gave notice of its intention to withdraw from the OKLNG project with effect from 13 June 2012. This resulted in a full impairment of the investment in BG OKLNG. The directors endeavour to resolve administrative matters to finalise such withdrawal.

Canada

In September 2015, the Company acquired interests in three non-operating blocks EL1123 (25%), EL1125 (10%) and EL1126 (10%). An exploration well was drilled in block EL1123 in 2015 and in block EL1126 in 2016, with no commercial success. In 2016, the Company acquired two additional licences for blocks EL1138 (30%) and EL1139 (25%), which also proved unsuccessful. The related exploration expenditure was written off by the end of 2016.

Australia

The Company holds assets in relation to exploration, development and production of coal seam gas in the Surat and Bowen Basin in southern Queensland.

Strategic report for the year ended 31 December 2016 continued

Trinidad

The Company has interests in eight offshore Blocks, off the east coast of Trinidad.

Through its wholly owned subsidiary undertaking Shell Trinidad 5(A) Limited, the Company owns a 50% working interest in Block 5(a) in the East Coast Marine Area (ECMA). The Block contains the Dolphin Deep field, 19.77% of the Starfish field (first gas in December 2014 and continued development in 2015 - see below), and the exploration wells Dorado and Turtle, all of which are governed by a signed Production Sharing Contract (PSC) with the President of the Republic of Trinidad and Tobago and the Minister of Energy and Energy Affairs.

The producing Dolphin Deep field was developed as a subsea well programme with a tie-in to the existing Dolphin platform (which is located in an adjacent Block) under a Joint Use Arrangement with the Dolphin field owners based on an ECMA Combined Development Plan (the BG interest in Dolphin is held by the Company's fellow group undertaking, Shell Trinidad and Tobago Limited). Hydrocarbons from the Dolphin Deep field, along with condensate, are sold to the domestic and export markets. Production volumes from the Dolphin Deep field were 1.59 mmboe in 2016 (2015: 2.11 mmboe). This is a mature field and production from existing wells is currently forecast to stop at the end of 2017. There are future developments currently being assessed which could lead to continued production post 2017.

The Company's 50% working interest in Block E which is adjacent to Block 5(a) was transferred to another wholly-owned subsidiary, Shell Trinidad Block E Limited, effective 1 January 2015. The Block contains 80.23% of the Starfish field (with the remainder in Block 5(a) as stated above). Production volumes from the Starfish field were 0.15 mmboe in 2016 (2015: 1.41 mmboe).

The Company's holdings include fields currently under exploration or in pre-development stage as follows:

- 100% interest in Block 5(c). Each of the three wells drilled in Block 5(c) has encountered hydrocarbons and has been successfully tested and a declaration of commerciality in respect of the Block was made in 2011. An appraisal well (Bounty 2 Well) was drilled in 2015.
- 100% of the working interest in Block 5(d), which sits adjacent to Block 5(c), pursuant to a PSC executed in May 2012. The first commitment under this PSC was a seismic programme over the acreage which was concluded in 2014 with prospect evaluation and interpretation in progress. An exploration well (Lobster Well) was drilled in 2015.
- 35% of the working interest in Blocks Trinidad and Tobago Deepwater Atlantic Areas (TTDAA) 5 and 6 which lie 70km east of Block 5(d) and are operated by BHP Billiton with a 65% working interest. The first commitment under these PSCs was a seismic programme which concluded at the end of 2014. Prospect evaluation and interpretation continued in 2016 along with exploration well planning.
- 35% interest in Blocks TTDAA 3 and 7 which sit adjacent to Blocks TTDAA 5 and 6, again with BHP as Operator holding the remaining 65% interest. The first commitment under these PSCs is a seismic programme which commenced in 2014 and was completed in 2016.

Strategic report for the year ended 31 December 2016 continued*Honduras*

During 2016, the Company was the sole licence holder of an offshore block covering approximately 35,000 square kilometres. In April to June of 2015 a 2D seismic acquisition campaign was completed. This was followed by the completion of a seabed mapping and sampling survey in July to August 2015. A second seabed mapping survey commenced in December 2015 and completed in April 2016. The result from such surveys did not yield commercially viable options and the related exploration expenditure was written off by the end of 2016 and the licence was transferred in 2017.

Principal risks and uncertainties

The Company is subject to a broad range of risks such as political, commodity prices, reserves replacement, people resource and project delivery risks.

The Shell Group has a single risk based control framework - The Shell Control Framework - to identify and manage risks. The Shell Control Framework applies to all wholly owned Shell companies and to those ventures and other companies in which Royal Dutch Shell has directly or indirectly a controlling interest. From the perspective of the Company, the principal risks and uncertainties affecting the Company are considered to be those that affect the Shell Group. Accordingly, the principal risks and uncertainties of the Shell Group, which are discussed on pages 12 to 15 of Royal Dutch Shell's Annual Report and Form 20-F for the year ended 31 December 2016 (the "Group Report"), include those of the Company. (The Group Report does not form part of this report).

Key performance indicators (KPIs)

Companies of the Shell Group comprise the Upstream businesses of Exploration and Production, Gas and Power and Oil Sands and the Downstream businesses of Oil Products and Chemicals. The Company's key performance indicators, that give an understanding of the development, performance and position of the business, are aligned with those of the Shell Group. The development, performance and position of the various businesses is discussed on pages 22 to 48 of the Group Report and the key performance indicators through which the Group's performance is measured are as set out on pages 20 to 21 of the Group Report.

Strategic report for the year ended 31 December 2016 continued

Financial performance and position

As shown in the Company's income statement on page 14, revenue of the Company decreased by 17% during the year to £511 million (2015: £617 million). Loss before taxation decreased to £1,117 million (2015: £1,473 million). This is primarily due to impairments recorded during the year for £254 million on its tangible and intangible assets compared to £631 million recorded in 2015; and reduction in operating costs offset by increase in finance costs in 2016.

The loss for the year ended 31 December 2016 of £838 million (2015: £960 million) has been transferred to reserves.

The balance sheet on page 15 shows that the Company's net assets decreased by 51%. This is principally due to the loss for the year and an increase in of balances due to group companies during the year.

By order of the Board:



S A Constant-Glemas
Director

Date: 01/11/2017

Registered Office:
Shell Centre
London, United Kingdom
SE1 7NA

Registered in England and Wales No. 902239

Directors' report for the year ended 31 December 2016

The Directors present their report and the audited financial statements for BG International Limited for the year ended 31 December 2016.

Dividend

The Directors did not propose an interim dividend for the year ended 31 December 2016 (2015: £nil). The Directors have not proposed a final dividend (2015: £nil).

Future developments

Future developments are included in the Strategic report.

Events after the reporting date

On 31 January 2017, Shell agreed to sell a package of UK North Sea assets to Chrysaor for a total of up to \$3.8 billion, including an initial consideration of \$3.0 billion and a payment of up to \$600 million between 2018-2021 subject to commodity price, with potential further payments of up to \$180 million for future discoveries.

The package of assets consists of Shell's interests in: Buzzard (21.73%), Beryl (39.4%), Bressay (18.4%), Elgin-Franklin (14.1%), J-Block (30.5%), the Greater Armada cluster excluding Gaupe (76.4%), Everest (100%), Lomond (100%), Erskine (32%) and Schiehallion (10%). Shell is the operator of Armada, Everest and Lomond and upon completion of the sale, Chrysaor will assume operatorship of those assets. With the exception of Schiehallion, in which Shell will retain a 45% stake, the percentages listed represent Shell's total interest in each of the assets. The package also includes the share sale of the statutory entity BG International CNS Limited, which holds Shell's interests in a number of the assets noted.

Based on the initial consideration received, the Shell Group expects to record an accounting gain on sale. The deal is subject to partner and regulatory approvals, with completion expected in the second half of 2017. The transaction's effective date is 1 July 2016.

On 31 May 2017, the Company subscribed to additional equity shares of its subsidiary, Shell Exploration and Production Tanzania Limited (formerly known as BG Tanzania Limited) to the extent of \$686 million.

During 2017, the Company has entered into an agreement to acquire 100% interest in Chevron Trinidad & Tobago Resources SRL (CTTR), a Barbados registered company, which holds a 50% interest in Block 6, 5a and E of ECMA Block, offshore Trinidad & Tobago which includes producing fields Dolphin, Dolphin Deep, and Starfish, the predevelopment Manatee field, the T&T side of the Loran-Manatee Unit ("LMU"), which straddles the T&T/Venezuela border, and associated wells, platforms, facilities, and contracts. This transaction will increase Shell's interest in the above assets to 100%. Shell is already operator of all ECMA fields and infrastructure. Chevron has an interest in the Loran field (Venezuela) and will continue to be Unit Operator of LMU.

Directors

The following served as Directors during the year and up to the date of this report, unless otherwise shown:

E Bonino (appointed 15 February 2016 and resigned 7 February 2017)

M J T Brink (appointed 15 February 2016)

M A H Brown (resigned 15 February 2016)

S A Constant-Glemas (appointed 15 February 2016)

Directors' report for the year ended 31 December 2016 continued

B P Eggleston (appointed 5 May 2016)

P Goodfellow (appointed 20 July 2016 and resigned 28 February 2017)

S M A Iskander

K Jackson

S J Lowth (resigned 15 February 2016)

A D McLean (appointed 15 February 2016)

R L O'Brien (appointed 15 February 2016)

The following Director was appointed after the year end:

S R Phimister (appointed 1 March 2017)

Company Secretaries

The following served as joint Company Secretaries during the year and up to the date of this report, unless otherwise shown:

S P Allen (resigned 14 March 2016)

R L Dunn (resigned 14 March 2016)

C L Ennett (resigned 14 March 2016)

Shell Corporate Secretary Limited (appointed 14 March 2016)

Qualifying third party indemnities

Certain Directors have been granted qualifying third-party indemnity under Section 234 of the Companies Act 2006 by BG Group Limited, which remains in force. The indemnity does not apply in the event the indemnified individual is proved to have acted fraudulently or dishonestly.

Employee involvement

The Company has a comprehensive policy concerning information provision and consultation with employees. Its objective is to meet their needs for information and involvement in issues affecting them, and to contribute to the management of change in the organisation.

The primary responsibility for information and consultation rests with management. It is supplemented by representative bodies at some employment locations. In addition, there is a well-established system by which the senior management in the Company makes presentations to employees on business results and plans. This is in turn supplemented by in-house journals, briefing papers, management letters and video presentations.

All of the formal employee representative bodies held regular meetings throughout the year. Employees have been advised of the right to apply for share options in Royal Dutch Shell plc under the "Shell Sharesave" savings-related share option scheme.

Directors' report for the year ended 31 December 2016 continued**Equal opportunities**

The Company aims to have leading equal opportunities policies and practices. The Company has a published equal opportunities policy and a detailed code of practice in support of this. Progress is regularly monitored. The Company's policy continues to be the application of equal opportunity principles to the selection, training and career development of all applicants and employees, irrespective of gender, race, ethnic origin, marital status, religion or disability.

With respect to disabled people, the Company's medical officers provide appropriate advice to help with the successful achievement of these objectives, particularly regarding physical facilities, which need to be made available at the workplace. The Company is also committed to providing continuing employment of employees who become disabled whilst working for the Company.

The Company offers a range of flexible working conditions to assist employees in balancing work and outside commitments. There are also schemes such as career breaks, six months paid maternity leave for women and a range of childcare support initiatives to support employees with families.

Branches

The Company has branches in the following locations: Australia, Canada, China, Egypt, Honduras, Kazakhstan and Trinidad.

Financial risk management

The Company's Directors are required to follow the requirements of Shell Group risk management policies, which include specific guidelines on the management of market, credit and liquidity risk, and advice on the use of financial instruments to manage them. Shell Group risk management policies can be found in the Group Report (see pages 71 to 72 and note 20).

Financial risks that are specific to the Company are discussed in note 16 of the financial statements.

Auditors

Pursuant to Section 487 of the Companies Act 2006, Ernst & Young LLP (the auditors) are deemed to have been re-appointed and remain in office as the auditors of the Company.

Directors' report for the year ended 31 December 2016 continued

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, the Directors' report and the Company's financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare accounts for each financial year. Under that law the Directors have elected to prepare the Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

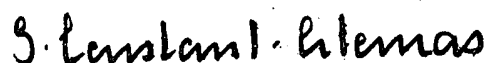
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report for the year ended 31 December 2016 continued

Disclosure of information to auditors

All Directors in office at the date of approval of the Directors' report confirm that in so far as each of the Directors is aware, there is no relevant audit information (meaning information needed by the Company's auditors in connection with preparing their report) that has not been disclosed to the Company's auditors. Each of the Directors believes that he or she has taken all steps that ought to have been taken to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board:



S A Constant-Glemas
Director

Date: 01/11/2017

Registered Office:
Shell Centre
London, United Kingdom
SE1 7NA

Registered in England and Wales No. 902239

Independent auditors' report to the member of BG International Limited

We have audited the financial statements of BG International Limited for the year ended 31 December 2016 which comprise the Income statement, the Statement of financial position, the Statement of changes in equity and the related notes, set out on pages 14 to 44. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities (set out on page 10), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101, 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Independent auditors' report to the member of BG International Limited continued

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of audit, we have identified no material misstatements in the Strategic report or Directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Gary Donald
(Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditors
London

Date: 7/11/17

Income statement for the year ended 31 December

	Notes	2016 £m	2015 £m
Revenue	3	511	617
Other operating (loss)/income	3	(6)	1
Operating costs		(414)	(729)
Exploration expenditure		(47)	(221)
Depreciation		(494)	(438)
Impairment	4	(254)	(631)
Operating loss	4	(704)	(1,401)
Finance income	7	29	14
Finance costs	7	(442)	(86)
Loss before taxation		(1,117)	(1,473)
Taxation	8	279	513
Loss for the year		<u>(838)</u>	<u>(960)</u>

The results for the year are derived solely from continuing operations.

Statement of comprehensive income for the year ended 31 December

	Notes	2016 £m	2015 £m
Loss for the year		<u>(838)</u>	<u>(960)</u>
Other items:			
Remeasurement of defined benefit pension obligation	15	63	16
Tax on remeasurement of defined benefit pension obligation		(14)	(4)
		<u>49</u>	<u>12</u>
Other comprehensive income for the year, net of tax		<u>49</u>	<u>12</u>
Total comprehensive charges for the year		<u>(789)</u>	<u>(948)</u>

Statement of financial position as at 31 December

	Notes	2016 £m	2015 £m
Non-current assets			
Intangible assets	9	626	826
Property, plant and equipment	10	2,110	2,381
Investments	11	2,746	2,746
Net retirement benefit surplus	15	-	139
Trade and other receivables	13	-	1
		<u>5,482</u>	<u>6,093</u>
Current assets			
Inventories	12	34	63
Trade and other receivables	13	5,291	3,087
Cash and cash equivalents		27	105
		<u>5,352</u>	<u>3,255</u>
Total assets		<u>10,834</u>	<u>9,348</u>
Current liabilities			
Trade and other payables	14	(8,604)	(6,115)
Non-current liabilities			
Trade and other payables	14	(211)	(207)
Deferred tax liabilities	8	(160)	(405)
Net retirement benefit deficit	15	(56)	(47)
Provisions	17	(898)	(733)
		<u>(1,325)</u>	<u>(1,392)</u>
Total liabilities		<u>(9,929)</u>	<u>(7,507)</u>
Net assets		<u>905</u>	<u>1,841</u>
Equity			
Called up share capital	18	1,688	1,688
Retained earnings		(1,406)	(470)
Revaluation reserve		623	623
Total equity		<u>905</u>	<u>1,841</u>

The financial statements on pages 14 to 44 were approved by the Board of Directors and were signed on its behalf by:

S. Constant-Glemas

S A Constant-Glemas

Director

Date: 01/11/2017

Statement of changes in equity

	Called up share capital £m	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 January 2015	1,688	674	395	2,757
Loss for the year	-	-	(960)	(960)
Other comprehensive income for the year	-	-	12	12
Total comprehensive income for the year	-	-	(948)	(948)
Share based payment transactions	-	-	32	32
Transfer of impairment of investments	-	(51)	51	-
At 31 December 2015	1,688	623	(470)	1,841
Loss for the year	-	-	(838)	(838)
Other comprehensive income for the year	-	-	49	49
Total comprehensive income for the year	-	-	(789)	(789)
Share based payment transactions	-	-	19	19
Derecognition of pension scheme (see note 15)	-	-	(166)	(166)
At 31 December 2016	1,688	623	(1,406)	905

The Revaluation reserve arose on the revaluation of certain non-current assets.

Notes to the financial statements

General company information

The Company is a limited company, which is incorporated in England and Wales. The registered office is Shell Centre, London SE1 7NA.

1 Ultimate parent undertaking

The immediate parent company is BG Energy Holdings Limited.

The ultimate parent company and controlling party is Royal Dutch Shell plc, which is incorporated in England and Wales. Royal Dutch Shell plc is the parent undertaking of the smallest and largest group to consolidate these accounts.

The consolidated accounts for Royal Dutch Shell plc are available from Company Secretary, Shell Centre, London SE1 7NA (Tel: +31 888 800 844; Email: order@shell.com).

2 Accounting policies

Basis of preparation and accounting principles

The balance sheet at 31 December 2016 reports a net current liability of £3,356 million (2015: £2,860 million). The Directors of the Company have received confirmation from the Directors of BG Energy Holdings Limited that the entity intends to financially support the Company to enable it to meet these liabilities as they fall due and carry on its business without curtailment of its operations. As a result, the Directors consider the going concern basis of preparation to be appropriate.

The balance sheet and income statements have been prepared using the IAS 1 format.

These accounts have been prepared on the going concern basis and in accordance with applicable law in the United Kingdom and Financial Reporting Standard 101, 'Reduced disclosure framework', using historical cost convention, except for certain items measured at fair value, and in accordance with the Companies Act 2006. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Where the Company has entered into joint operations with other companies to participate in exploration, development and production activities, the Company records its own share of the assets, liabilities, revenue and expenses associated with these joint operations.

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

Exemptions

Group accounts of the Company and its subsidiary and participating undertakings have not been prepared. The Company is exempt from the requirement to prepare group accounts under the provisions of Section 400 of the Companies Act 2006. The accounts present information about the Company as an individual undertaking and not about its group.

Notes to the financial statements continued

2 Accounting policies continued

Summary of disclosure exemptions

The following disclosure exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- (a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment'
- (b) Paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j), to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3, 'Business combinations'.
- (c) Paragraph 33(c) of IFRS 5, 'Non-current assets held for sale and discontinued operations'.
- (d) IFRS 7, 'Financial instruments: disclosures'.
- (e) Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement'.
- (f) Paragraph 38 of IAS 1, 'Presentation of financial statements' to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1, 'Presentation of financial statements'; paragraph 73(e) of IAS 16, 'Property, plant and equipment'; paragraph 118(e) of IAS 38, 'Intangible assets'; paragraph 76 and 79(d) of IAS 40, 'Investment property'; and paragraph 50 of IAS 41, 'Agriculture'.
- (g) Paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1, 'Presentation of financial statements'.
- (h) IAS 7, 'Statement of cash flows'.
- (i) Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors'.
- (j) Paragraphs 17 and 18A of IAS 24, 'Related party disclosures'.
- (k) The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- (l) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets'.

Exploration expenditure

The Company uses the 'successful efforts' method of accounting for exploration expenditure. Exploration expenditure, including licence acquisition costs, is capitalised as an intangible asset when incurred and certain expenditure, such as geological and geophysical exploration costs, is expensed. A review of each licence or field is carried out, at least annually, to ascertain whether commercial reserves have been discovered.

Intangible exploration and appraisal expenditure is reclassified to property, plant and equipment on the determination of proved reserves. This is the point when exploration and appraisal activities become a development project and reflects the importance of individual well performance and reserves to conventional E&P projects.

Exploration expenditure transferred to property, plant and equipment is subsequently depreciated on a unit of production basis. Exploration expenditure deemed to be unsuccessful is written off to the income statement.

Notes to the financial statements continued

2 Accounting policies continued

Depreciation

Freehold land is not depreciated. Other property, plant and equipment, except exploration and production assets, is depreciated on a straight-line basis at rates sufficient to write off the historical cost less residual value of individual assets over their estimated useful lives. Asset lives and residual values are reassessed annually. The asset's residual values, useful lives and methods of depreciation are reviewed at each reporting period and adjusted prospectively, if appropriate. The depreciation periods for the principal categories of assets are as follows:

Leasehold buildings	up to 50 years
Plant and machinery	5 to 40 years
Motor vehicles and office equipment	up to 10 years

Exploration and production assets are depreciated from the commencement of commercial production in the fields concerned, using the unit of production method based on the proved developed reserves of those fields, except that a basis of total proved reserves is used for acquired interests and for facilities.

Changes in depreciation estimates are dealt with prospectively.

Decommissioning costs

Where a legal or constructive obligation has been incurred, provision is made for the net present value of the estimated cost of decommissioning at the end of the producing lives of assets. When this provision gives access to future economic benefits, an asset is recognised and then subsequently depreciated in line with the life of the underlying producing asset, otherwise the costs are charged to the income statement. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning assets. The unwinding of the discount on the provision is included in the income statement within the finance costs. Any changes to estimated costs or discount rates are dealt with prospectively.

Notes to the financial statements continued

2 Accounting policies continued

Impairment of non-current assets

Non-current assets subject to depreciation or amortisation are reviewed for impairments whenever events or other changes in circumstances indicate that the carrying amount may not be recoverable. Expenditure on unproved gas and oil reserves is assessed for impairment when facts and circumstances suggest that its carrying amount exceeds its recoverable amount.

Any impairment of non-current assets (excluding financial assets) is calculated as the difference between the carrying values of cash-generating units (including associated goodwill) and their recoverable amount, being the higher of the estimated value in use or fair value less costs of disposal at the date the impairment charge is recognised. Value in use represents the net present value of expected future cash flows discounted on a pre-tax basis. Fair value less costs of disposal is based on the best evidence available to the Company, and may include appropriate valuation techniques, market data or sales of comparable assets.

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

If, after an impairment loss has been recognised, the recoverable amount of a fixed asset increases because of a change in economic conditions or in the expected use of the asset, the resulting reversal of the impairment loss is recognised in the current year to the extent that it increases the carrying amount of the fixed asset up to the amount it would have been had the original impairment not occurred.

Financial instruments

Loans not in a fair value hedging relationship and receivable and payable balances are initially recognised at fair value and subsequently carried at amortised cost less impairments.

Derivative financial instruments including commodity contracts within the scope of IAS 39 are initially recognised and subsequently re-measured at fair value. Movements in the fair value of derivative financial instruments not included in hedging relationships are recognised in the income statement.

Revenue

Revenue associated with exploration and production sales (of natural gas, crude oil and petroleum products) is recorded when title passes to the customer. Revenue from the production of hydrocarbons in which the Company has an interest with other producers is recognised based on the Company's working interest and the terms of the relevant production sharing contracts (entitlement method). All other revenue is recognised when title passes to the customer.

Interest income

Interest income for financial instruments measured at amortised cost is recognised in finance income in the income statement and is calculated using the effective interest rate method.

Notes to the financial statements continued

2 Accounting policies continued

Current and deferred income tax

The tax expense for the period comprises current and deferred tax, determined using currently enacted or substantively enacted tax laws. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Property plant and equipment

All property, plant and equipment is carried at depreciated historical cost. Additions represent new, or replacements of specific components of property, plant and equipment.

Inventories

Inventories, including inventories of natural gas, crude oil and petroleum products held for sale in the ordinary course of business, are stated at weighted average historical cost less provision for deterioration and obsolescence or, if lower, net realisable value.

Foreign currencies

The functional currency of the Company is Pounds Sterling and the Financial Statements are presented in that currency. Transactions in foreign currencies are translated into Pounds Sterling at the rates of exchange ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into Pounds Sterling at the rates of exchange ruling at the reporting date. Differences arising from changes in exchange rates are taken to the income statement in the year in which they arise.

Leases

Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term.

Leases that transfer substantially all the risks and rewards of ownership are recognised at the commencement of the lease term as finance leases. Finance leases are recorded in the balance sheet as assets and as obligations to make future payments. The sum recorded both as an asset and as a liability is the lower of the fair value of the leased assets and the present value of the minimum lease payments calculated using the discount rate implicit in the lease. The resultant tangible fixed assets are depreciated, depleted or amortised over the lower of the useful life and the term of the lease. Payments made are accounted for in the appropriate proportions as repayments of principal and charges for interest.

Notes to the financial statements continued

2 Accounting policies continued

Pensions

The Company is a member of the BG Pension Scheme, a Group plan which covers the majority of its employees and is a funded defined benefits scheme. Under the terms of the scheme, there is no defined policy for allocating the net defined benefit obligation amongst the participating members. Accordingly, the plan is accounted for as a defined contribution plan.

The amount recognised on the balance sheet in respect of the liabilities for BG Supplementary Benefits Scheme represents the present value of the obligations. The cost of providing retirement pensions and related benefits is charged to the income statement over the periods benefiting from the employees' services. Current service costs are reflected in operating profit and net interest costs are reflected in finance costs in the period in which they arise. Actuarial gains and losses are recognised in full as they occur in other comprehensive income.

Contributions made to defined contribution pension plans are charged to the income statement when payable.

Share based payments

The cost of providing share-based payments to employees is charged to the income statement over the vesting period of the related share options or share allocations. The cost is based on the fair value of the options or shares allocated and the number of awards expected to vest. The fair value of each option or share is determined using either the share price on the date of the grant or a Monte Carlo projection model, depending on the type of award. Market-related performance conditions are reflected in the fair value of the share. Non-market-related performance conditions are allowed for using a separate assumption about the number of awards expected to vest; the final charge made reflects the number actually vesting.

Judgements and estimates

The preparation of financial statements in conformity with FRS101 requires the Company to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Notes to the financial statements continued

2 Accounting policies continued

a) Useful economic life of tangible fixed assets

Depreciation of tangible fixed assets is calculated using management's assessment of the useful economic lives of the underlying assets. Upon purchase or construction of an asset, useful economic life is assessed by reference to a number of underlying assumptions, including the economic lives of other similar assets. As the economic benefit of the assets is consumed over the course of its life, revisions to the useful life of the asset may be made upon assessment of changes in the operating environment or the condition of the asset itself.

b) Impairment of tangible fixed assets

For the purposes of determining whether impairment of tangible fixed assets and intangible fixed assets has occurred, and the extent of any impairment or its reversal, the key assumptions management uses in estimating risk-adjusted future cash flows for value-in-use measures are future oil and gas prices and expected production volumes appropriate to the local circumstances and environment. These assumptions and the judgements of management that are based on them are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates.

Future price assumptions tend to be stable because management does not consider short-term increases or decreases in prices as being indicative of long-term levels, but they are nonetheless subject to change. Expected production volumes, which comprise proved reserves and unproved volumes, are used for impairment testing because management believes this to be the most appropriate indicator of expected future cash flows. As discussed in "Estimation of proved oil and gas reserves", reserves estimates are inherently imprecise. Furthermore, projections about unproved volumes are based on information that is necessarily less robust than that available for mature reservoirs. Due to the nature and geographical spread of the business activity in which those assets are used, it is typically not practicable to estimate the likelihood or extent of impairments under different sets of assumptions. The discount rate applied is reviewed annually.

Changes in assumptions could affect the carrying amounts of assets, and impairment charges and reversals will affect income.

Notes to the financial statements continued

2 Accounting policies continued

c) Estimation of proved oil and gas reserves

Unit-of-production depreciation, depletion and amortisation charges are principally measured based on management's estimates of proved developed oil and gas reserves. Also, exploration drilling costs are capitalised pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of proved reserves are inherently imprecise, require the application of judgement and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Changes to estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of exploration and production assets. It is expected, however, that in the normal course of business the diversity of the asset portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalised exploration drilling costs being recognised in income in that period.

d) Decommissioning and restoration provisions

Provisions are recognised for the future decommissioning and restoration of hydrocarbon production facilities and pipelines at the end of their economic lives. The estimated cost is recognised in income over the life of the proved developed reserves on a unit-of-production basis or on a straight-line basis, as applicable. Changes in the estimates of costs to be incurred, proved developed reserves, or in the rate of production will therefore impact income, generally over the remaining economic life of the related assets.

Estimates of the amounts of provisions recognised are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes. The discount rate applied is reviewed annually.

Notes to the financial statements continued

2 Accounting policies continued

e) Taxation

Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgement as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognised in income in the period in which the change occurs.

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognised in respect of deferred tax assets as well as in the amounts recognised in income in the period in which the change occurs.

The Company believes that there are no other specific judgements or estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Related party disclosure

In accordance with the exemption allowed by FRS 101, no disclosure is made of transactions with wholly owned companies of the Shell Group.

3 Revenue and other operating income

Revenue, which excludes value added tax, represents amounts receivable for sales of hydrocarbons and tariff income as follows:

	2016 £m	2015 £m
Revenue		
Gas, condensate and liquefied petroleum gas	312	434
Oil	133	151
Tariff income	11	1
Other revenue	55	31
	<u>511</u>	<u>617</u>
Other operating (loss)/income		
Re-measurements of commodity-based contracts	(6)	1
	<u>505</u>	<u>618</u>

Notes to the financial statements continued

4 Operating loss

Operating loss is stated after charging:

	2016 £m	2015 £m
Impairment of property, plant and equipment	39	316
Unsuccessful exploration expenditure written off	-	156
Impairment of intangible assets	215	-
Impairment of investments	-	315
Depreciation	494	438
Write off of amounts due from group undertakings	16	125
	<u>288</u>	<u>308</u>
Employee costs		
Wages and salaries	159	181
Social security costs	27	21
Pension costs	15	19
Share based payments	18	45
Other (including incentive schemes)	69	42
	<u>288</u>	<u>308</u>

At the end of 2016, the Company impaired intangible assets relating to exploration expenditure incurred within its operating locations in Egypt and Canada, amounting to £215 million (2015: £nil), based on assessment of future benefits arising from the these assets.

Further, the Company has impaired certain property, plant and equipment within its UK operations resulting in a charge of £39 million (2015: £316 million) during the year, computed based on fair value less costs of disposal. The carrying value of property, plant and equipment was impaired to its underlying net asset value as at December 2016 of £2,110 million (2015: £2,381 million).

During 2015, the Company had recognised an impairment of £315 million on its investments in subsidiary undertakings, which was driven by substantial operating losses incurred by those subsidiary undertakings.

The auditor's remuneration of £17,722 (2015: £17,316) has been borne by another group company and has not been recharged to the Company. Any fees paid to the Company's auditor and its associates for services other than the statutory audit of the Company are not disclosed in these accounts since the consolidated accounts of the Company's ultimate parent, Royal Dutch Shell plc, are required to disclose non-audit fees on a consolidated basis.

Notes to the financial statements continued

4 Operating loss continued

All employee costs are shown gross of recharges to other companies within the Shell Group. Pension costs include finance income/(costs) relating to pensions as detailed in notes 7 and 15.

The average number of employees during the year was:

	2016 No.	2015 No.
Upstream	<u>1,037</u>	<u>1,421</u>

5 Share-based payments

Prior to the Scheme of Arrangement of combination of Shell and BG Group plc becoming effective on 15 February 2016, there were various Long Term Incentive Plans of BG Group in place which were considered as share plans. At completion date, a portion of the share plan awards that did not transfer to Royal Dutch Shell plc were subject to accelerated vesting and a corresponding expense recognised in the income statement. The remaining awards were transferred to Royal Dutch Shell and will be settled in Royal Dutch Shell's 'B' shares at a relevant ratio depending on the details of each specific scheme. For the purposes of disclosure at 31 December 2016, share plans have been aggregated together. Conditional awards of Royal Dutch Shell plc shares are made under an amended long-term incentive plan (the 'Performance Share Plan') when making awards to employees who are not Executive Directors of Royal Dutch Shell plc. None of these Performance Share Plan awards were granted to employees of the Company during 2016.

	Option awards	Other share plan awards
2016		
Options exercised in the year:		
Weighted average share price at the date of exercise (£)	10.62	10.62
Options outstanding at the end of the year:		
Number (m)	1.64	0.76
Range of exercise prices (£)	11.85 - 14.59	n/a
Weighted average remaining contractual life (years)	4yrs 9 mths	n/a

Notes to the financial statements continued

5 Share-based payments continued

	Share awards under the LTIP	Nil-cost options under the LTIP	Sharesave Plan options	CSOS options	Other nil-cost options
2015					
Options exercised in the year:					
Weighted average share price at the date of exercise (£)	n/a	10.23	10.90	10.28	10.42
Options outstanding at the end of the year:					
Number (m)	5.5	11.3	2.2	2.1	2.0
Range of exercise prices (£)	n/a	n/a	8.30 - 11.10	4.99 - 7.92	n/a
Weighted average remaining contractual life (years)	n/a	8yrs 11mths	2yrs 3mths	1yrs 2mths	4yrs 8mths

6 Directors' remuneration

The total remuneration for all serving Directors for their period of directorship to the Company is disclosed below.

	2016 £000	2015 £000
Remuneration	2,806	3,709
Pension scheme contributions	29	496
	<u>2,835</u>	<u>4,205</u>

During the year the number of Directors who were receiving benefits and share incentives was as follows:

	2016 No.	2015 No.
Received or were entitled to receive shares under long term incentive schemes	7	5
Exercised share options	2	-
Accruing benefits under defined benefit pension scheme	5	-
Accruing benefits under defined contribution pension scheme	2	1

Highest paid Director

	2016 £000	2015 £000
Remuneration	634	1,673
Pension scheme contributions	12	221
	<u>646</u>	<u>1,894</u>

Notes to the financial statements continued

6 Directors' remuneration continued

The highest paid Director had no accrued pension or lump sum under a defined benefit pension scheme as at 31 December 2016 (2015: none).

The highest paid Director exercised share options during the year. These emoluments and pensions were not borne by the Company and hence not charged in the income statement.

7 Finance income and costs

	2016 £m	2015 £m
Finance income		
Interest receivable	29	14
	<u>29</u>	<u>14</u>
Finance costs		
Finance lease interest	(2)	(2)
Interest payable on amounts owed to group undertakings	(9)	(1)
Foreign exchange loss	(404)	(61)
Unwinding of discount on provisions (see note 17)	(26)	(21)
Net interest income on pension surplus/(liability) (see note 15)	(1)	(1)
	<u>(442)</u>	<u>(86)</u>

8 Current and deferred tax

The credit for taxation comprises:

	2016 £m	2015 £m
Current tax		
Corporation tax	(162)	(50)
Adjustments in respect of prior periods	17	70
Overseas tax	122	1
Overseas tax adjustments in respect of prior periods	-	(8)
Petroleum revenue tax	(44)	7
Total current tax charge	(67)	20
Deferred tax	(212)	(533)
Total tax credit	<u>(279)</u>	<u>(513)</u>

Notes to the financial statements continued

8 Current and deferred tax continued

The total tax credit reconciles with that calculated using the statutory UK corporate tax rate of 20.00% and 62% (2015: 20.25% and 62%):

	2016 £m	2015 £m
Loss before tax	<u>(1,117)</u>	<u>(1,473)</u>
Tax on loss before taxation at UK statutory corporation tax rate	(303)	(462)
Effects on tax credit of:		
Non-tax deductible or non-taxable items	4	28
Overseas taxes at different rates to UK statutory rates	122	(7)
Effect of petroleum revenue tax	(58)	(28)
Effect of changes in tax rate on deferred tax balances	(61)	(181)
Adjustment in respect of prior period- current tax	17	70
Adjustment in respect of prior period- deferred tax	-	(6)
Other timing differences	-	7
Non qualifying additions/depreciation	-	2
Impairment of subsidiaries	-	64
Total tax credit	<u>(279)</u>	<u>(513)</u>

UK Finance Act (No 2) Act 2015 introduced reductions in the UK corporation tax rate to 19% effective from 1 April 2017.

UK Finance Act 2016 which introduced further reductions in the UK corporation tax rate to 17% effective from 1 April 2020 was enacted on 15 September 2016.

The relevant deferred tax balances have been re-measured to 17%, the rate enacted by the balance sheet date.

The Finance Act 2016 enacted on 15 September 2016 reduced the supplementary charge from 20% to 10% effective from 1 January 2016. This reduced the combined ring fence corporation tax and supplementary charge rate from 50% to 40%. These have been reflected in the below tax reconciliation.

Notes to the financial statements continued

8 Current and deferred tax continued

Deferred tax

	Accelerated tax depreciation £m	Unused tax losses £m	Other temporary differences £m	Total £m
At 1 January 2015	(1,202)	298	(41)	(945)
Credit/(charge) for the year	450	54	29	533
Credit to equity and other comprehensive income	-	(4)	-	(4)
Disposals	11	-	-	11
As at 31 December 2015	(741)	348	(12)	(405)
Credit/(charge) for the year	247	(47)	12	212
Charge to equity and other comprehensive income	-	33	-	33
As at 31 December 2016	(494)	334	-	(160)
			2016 £m	2015 £m
Deferred tax liabilities			(495)	(754)
Deferred tax assets			335	349
Net deferred tax liability as at 31 December			(160)	(405)

Other temporary differences include deferred petroleum revenue tax, retirement benefit obligations and certain provisions.

Deferred tax assets are recognised for deductible temporary differences, unutilised tax losses and unused tax credits to the extent that realisation of the related tax benefit through future taxable income is probable. To determine the future taxable income, reference is made to the latest available profit forecast which takes into account production volumes, supply volumes and commodity prices in the relevant jurisdictions. This requires assumptions regarding future profitability and is therefore inherently uncertain.

There are no temporary differences on which deferred tax asset has been recognised in 2016 (2015: £354 million)

Notes to the financial statements continued

9 Intangible assets

	Unproved properties £m
Cost	
At 1 January 2016	1,006
Additions	32
Unsuccessful exploration expenditure written off	<u>(17)</u>
At 31 December 2016	<u>1,021</u>
Accumulated amortisation	
At 1 January and 31 December 2016	180
Impairment	<u>215</u>
At 31 December 2016	<u>395</u>
Net book value	
At 31 December 2016	<u>626</u>
At 31 December 2015	<u>826</u>

At the end of 2016, the Company impaired intangible assets relating to exploration expenditure incurred within its operating locations at Egypt and Canada, to the tune of £215 million (2015: £nil), based on assessment of future benefits arising from the said intangible assets.

Notes to the financial statements continued

10 Property, plant and equipment

	Exploration and production £m	Land, buildings, office equipment and motor vehicles £m	Finance lease £m	Total £m
Cost				
At 1 January 2016	4,852	835	17	5,704
Additions	53	18	-	71
Disposals and transfers	-	(6)	-	(6)
Other movements in decommissioning assets	187	-	-	187
At 31 December 2016	5,092	847	17	5,956
Accumulated depreciation				
At 1 January 2016	2,732	589	2	3,323
Depreciation	393	100	1	494
Disposals and transfers	2	(5)	-	(3)
Impairment	32	-	-	32
At 31 December 2016	3,159	684	3	3,846
Net book value				
At 31 December 2016	1,933	163	14	2,110
At 31 December 2015	2,120	246	15	2,381

11 Investments

	Shares in subsidiary undertakings £m
At 1 January 2016	2,746
At 31 December 2016	2,746

Notes to the financial statements continued

11 Investments continued

Subsidiary and other related undertakings

The Company's subsidiary and other related undertakings as at 31 December 2016 comprise:

Name	Activity	Country of incorporation	Proportion of shares held 2016
Alie Investments Limited	Transportation services	England and Wales (a)	100%
BG Central Holdings Limited	Holding company	England and Wales (a)	100%
BG Central Investments Limited*	Non-trading	England and Wales (a)	100%
BG Chile SA	LNG	Chile (b)	100%
BG Delta Limited	Exploration and production	England and Wales (a)	100%
BG Gas Services Limited	Gas services	England and Wales (a)	100%
BG Group Company Secretaries Limited	Dormant	England and Wales (a)	100%
BG Group Healthcare Trustees Limited	Dormant	England and Wales (a)	100%
BG International (CNS) Limited	Exploration and production	England and Wales (a)	100%
BG Karachaganak Limited	Exploration and production	England and Wales (a)	100%
BG Kenya L10A Limited	Exploration and production	England and Wales (a)	100%
BG Kenya L10B Limited	Exploration and production	England and Wales (a)	100%

Notes to the financial statements continued

11 Investments continued

Name	Activity	Country of incorporation	Proportion of shares held
BG Mongolia Holdings Limited	Holding company	England and Wales (a)	100%
BG Norge AS*	Exploration and production	Norway (c)	100%
BG Norge Exploration Limited	Dormant	England and Wales (a)	100%
BG Norge Limited	Exploration and production	England and Wales (a)	100%
BG OKLNG Limited	Non-trading	England and Wales (a)	100%
BG Subsea Well Project Limited	Oil spill response services	England and Wales (a)	100%
Shell Exploration and Production Tanzania Limited	Exploration and production	England and Wales (a)	100%
Shell Trinidad 5(A) Limited	Exploration and production	England and Wales (a)	100%
Shell Trinidad Block E Limited	Exploration and production	England and Wales (a)	100%
BGMEP LLC*	Exploration and production	Mongolia (d)	100%
Burullus Gas Company SAE*	Exploration and production	Egypt (e)	25%
Karachaganak Petroleum Marketing LLP*	Marketing	Kazakhstan (f)	29.25%
Karachaganak Petroleum Operating BV*	Exploration and production	Netherlands (g)	29.25%
Karachaganak Project Development Limited	Exploration and production	England and Wales (a)	38%
Prince Rupert LNG Exports Limited	LNG	Canada (h)	100%

Notes to the financial statements continued

11 Investments continued

Name	Activity	Country of incorporation	Proportion of shares held
Prince Rupert LNG Limited	LNG	Canada (h)	100%
Westcoast Connector Gas Transmission Limited	LNG	Canada (i)	50%

* indicates the subsidiary or other related undertaking is indirectly held

- (a) Registered office: Shell Centre, London SE1 7NA
 (b) Registered office: Carey Y Cia Abogados, Miraflores 222, Piso 28, Santiago
 (c) Registered office: Lokkeveien 111, 4007 Stavanger
 (d) Registered office: Suite 403, Floor 4 New Century Plaza, Chinggis Avenue, 1st Khoroo, Sukhbaatar, Ulaanbaatar
 (e) Registered office: 28 Road 270, Maadi, Cairo
 (f) Registered office: Promzona, Burlinski District, Aksai Town, West Kazakhstan Oblast
 (g) Registered office: Strawinskyalaan 1725, 1077 XX, Amsterdam
 (h) Registered office: Patterson Adams, Suite 402-707 Fort Street, PO Box 1231, Victoria BC V8W 2T6
 (i) Registered office: 4529 Melrose Street, Port Alberni BC V9Y 1K7

12 Inventories

	2016 £m	2015 £m
Gas Inventories	1	2
Raw materials and consumables	33	61
	<u>34</u>	<u>63</u>

Notes to the financial statements continued

13 Trade and other receivables

	2016 £m	2015 £m
Non-current		
Derivative financial instruments (see note 16)	-	1
	-	1
Current		
Trade receivables	239	140
Amounts owed by parent undertakings	698	169
Amounts owed by subsidiary undertakings	2,013	1,229
Amounts owed by fellow subsidiary undertakings	2,042	1,213
Amounts owed by group undertakings in respect of taxation	108	150
Derivative financial instruments (see note 16)	-	15
Other receivables	184	155
Prepayments	7	16
	5,291	3,087

Amounts owed by group undertakings in 2015 included a loan of £647 million, which was unsecured, bearing interest at LIBOR plus 50 basis points and was repayable on demand; a loan of £193 million which was unsecured, bearing interest at 4% per annum and repayable on demand; and a loan of £110 million, which was unsecured, bearing interest at LIBOR minus 0.1% and was repayable on demand. All these loans were repaid during 2016.

All other amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

Notes to the financial statements continued

14 Trade and other payables

	2016 £m	2015 £m
Non-current		
Amounts owed to fellow subsidiary undertakings	211	206
Derivative financial instruments (see note 16)	-	1
	<u>211</u>	<u>207</u>
Current		
Trade payables	127	65
Amounts owed to parent undertakings	2,068	951
Amounts owed to subsidiary undertakings	1,176	15
Amounts owed to fellow subsidiary undertakings	5,019	4,616
Derivative financial instruments (see note 16)	-	9
Other payables	35	36
Accrued expenses	168	414
Overdraft	11	9
	<u>8,604</u>	<u>6,115</u>

Non-current amounts owed to group undertakings includes a loan of £211 million (2015: £206 million), which is unsecured, bears interest at LIBOR plus 59 basis points and is repayable on 15 July 2027.

Included in current amounts owed to group undertakings are two loans totalling £2,290 million (2015: £2,290 million), which are unsecured, interest free (up to August 2015 both loans were bearing interest at LIBOR plus 50 basis points) and are repayable on demand.

All other amounts included in current amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

Notes to the financial statements continued

15 Net retirement benefit surplus/deficit

The Company is a Member Company of the BG Pension Scheme (BGPS), a defined benefit registered pension plan established under trust. The Trustee is BG Group Pension Trustees Limited. The BGPS is funded to cover future pension liabilities in respect of service up to the closure of the scheme. It is subject to an independent valuation at least every three years, on the basis of which the independent qualified actuary certifies the rate of employers' contributions that, together with the returns on the BGPS's assets, are expected to be sufficient to fund the benefits payable.

The BGPS closed to future accrual of benefits on 31 December 2013 and all active members became deferred pensioners with pensions calculated based on salaries up until the point of closure for such active members. These deferred pensions are generally revalued in line with movements in the Retail Prices Index. Certain benefits relating to individual transfers-in and purchases of additional pensionable service by employees retain a link to pensionable salary post-closure.

The last full independent actuarial valuation of the BGPS for funding purposes showed that the aggregate market value of the plan assets at 31 March 2014 was £1,540m, representing 97% of the accrued liabilities. The next full funding valuation is expected to be performed with an effective date of 31 March 2017. As part of the funding agreement in respect of the 2011 actuarial valuation and the closure of the BGPS to future accrual of benefits, the Company and the Trustee established a Pension Funding Partnership (PFP) to address the deficit and to provide greater security to the Trustee.

In December 2013, the Company acquired an interest in the PFP for £110m. It also contributed £350m to the BGPS and the Trustee used this to purchase its interest in the PFP. The PFP had an interest in loans due from a fellow subsidiary undertaking, Methane Service Limited ("MSL"), secured on four ships owned by MSL. The proceeds of the loans were to use to make annual distributions of £33m to the BGPS for 15 years and to pay a capital sum in 2028 of £172m which would have been used, if necessary, to fund any deficit in the BGPS at that time, measured on a 'self-sufficiency' funding basis. In December 2014, MSL entered into an agreement for the sale of two of these LNG ships for proceeds of \$460m, which completed in March 2015. From this sale, MSL repaid £220m of the loans due to the PFP, which were utilised to support the funding of the BGPS. As such the amount of ongoing annual distributions will reduce to £16.5m and the capital sum due in 2028 was revised to £86m. As part of the establishment of the PFP certain additional payments into the BGPS may be required. Based on the most recent funding information available the Company currently expects to contribute approximately an additional £80m into the BGPS before the end of March 2018.

The Company is unable to identify its share of the scheme's underlying assets and liabilities on a consistent and reasonable basis to enable it to account for the plan as a defined benefit plan. There are no contractual or stated policies on which to base an allocation of the Fund's underlying assets and liabilities to member companies. As part of the acquisition of BG Group by Royal Dutch Shell plc, Shell Petroleum N.V. ("SPNV") has provided a guarantee to the Trustees of the BGPS for all the obligations of the member companies. SPNV ultimately bears the risk of the BGPS and is deemed to be the sponsoring entity for the purposes of these statutory accounts. Accordingly, the Company has derecognised the BGPS effective from 15 February 2016 directly against retained earnings, and will account for the BGPS as a defined contribution scheme from this date forwards.

Notes to the financial statements continued

15 Net retirement benefit surplus/deficit continued

The BG Supplementary Benefits Scheme (BGSBS) provides benefits broadly in excess of the 'lifetime allowance'. This defined benefit plan is an unfunded, non-registered arrangement. The BGSBS was closed to future accrual of benefits on 31 December 2013, the same date as benefit accrual ceased in the BGPS.

A valuation was performed for accounting purposes at 31 December 2016 using assumptions set in line with the requirements of the IAS19 accounting standard. The principal financial assumptions adopted in the valuation were a discount rate of 2.7% (2015: 3.8%), and a price inflation rate of 2.2% (2015: 3.1%). The value of the BGPS's assets as at that date was £1,743 million and the value of the liabilities on this accounting basis was £1,728 million, meaning the surplus measured for accounting purposes was £15 million, however due to the above-mentioned guarantee provided by SPNV this has not been recognised by the Company. The value of the BGSBS deficit as at 31 December 2016 was £56 million, which continues to be recognised by the Company.

The following tables show the movements in the defined benefit obligation (DBO), the fair values of plan assets and the net defined benefit obligation in the period, separately identifying the impact on the income statement and other comprehensive income:

2016 £m	Defined benefit obligation	Fair value of plan assets	Net surplus/ (deficit)
At 1 January	(1,408)	1,500	92
Net interest	(8)	7	(1)
Subtotal recognised in the income statement:	(8)	7	(1)
Return on plan assets, excluding amounts included in finance costs	-	16	16
Actuarial gains and losses arising from changes in financial assumptions	47	-	47
Subtotal recognised in other comprehensive income:	47	16	63
Derecognition	1,306	(1,519)	(213)
Subtotal recognised in retained earnings:	1,306	(1,519)	(213)
Benefits paid	7	(7)	-
Employer contributions	-	3	3
	7	(4)	3
At 31 December	(56)	-	(56)

Notes to the financial statements continued

15 Net retirement benefit surplus/deficit continued

2015

£m

	Defined benefit obligation	Fair value of plan assets	Net surplus/ (deficit)
At 1 January	(1,451)	1,285	(166)
Net interest	(53)	52	(1)
Subtotal recognised in the income statement:	(53)	52	(1)
Return on plan assets, excluding amounts included in finance costs	-	(32)	(32)
Actuarial gains and losses arising from changes in financial assumptions	13	-	13
Experience adjustments	35	-	35
Subtotal recognised in other comprehensive income:	48	(32)	16
Benefits paid	48	(48)	-
Employer contributions	-	243	243
	48	195	243
At 31 December	(1,408)	1,500	92

The Company's contribution to the BGPS from 16 February 2016 to 31 December 2016 amounted to £15 million (2015: £19 million).

The plan assets of the scheme are invested mainly in quoted equities 25.1% (2015: 20%) and debt instruments 42.2% (2015: 46%), with the remainder 32.7% (2015: 34%) invested across a variety of asset classes including real estate, private equity and other investment funds.

Notes to the financial statements continued

16 Derivative financial instruments

The Company uses various commodity based derivative instruments to manage some of the risks arising from fluctuations in commodity prices, including physical and net settled forwards, futures, swaps and options. Commodity instruments are also used to manage certain price exposures in respect of optimising the timing and location of physical gas and oil commitments. In addition, certain commodity contracts have pricing terms based on a variety of commodities or indices that bring them into the scope of IAS 39, and certain short-term market traded contracts for the purchase and subsequent resale of third-party commodities are also within the scope of IAS 39.

Derivative fair values are derived directly from observable quoted prices in active markets where possible, or otherwise are based on valuation techniques using relevant market prices and market yield curves at the balance sheet date.

Fair values of derivatives on balance sheet are set out below:

	2016 Assets £m	2016 Liabilities £m	2015 Assets £m	2015 Liabilities £m
Non-current				
Other commodity derivatives	-	-	1	(1)
	<u>-</u>	<u>-</u>	<u>1</u>	<u>(1)</u>
Current				
Gas contracts	-	-	3	-
Other commodity derivatives	-	-	12	(9)
	<u>-</u>	<u>-</u>	<u>15</u>	<u>(9)</u>
			2016 £m	2015 £m
Fair value through the income statement:				
Gas contracts			3	11
Other commodity derivatives			3	(10)
			<u>6</u>	<u>1</u>

Notes to the financial statements continued

17 Provisions

	Onerous contracts £m	Other provisions £m	Decomm- issioning costs £m	Total £m
At 1 January 2016	50	7	676	733
Increase in provisions due to change in estimates	-	32	187	219
Utilisation of provisions	(8)	(4)	(59)	(71)
Unused provision reversed	-	(2)	(7)	(9)
Unwinding of discount	2	-	24	26
At 31 December 2016	<u>44</u>	<u>33</u>	<u>821</u>	<u>898</u>

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed at least annually and engineering estimates and reports are updated periodically. Provision is made for the estimated cost of decommissioning at the balance sheet date, to the extent that current circumstances indicate that the Company will ultimately bear this cost. The payment dates of expected future decommissioning costs are uncertain and are based on economic assumptions surrounding the useful economic lives of the fields concerned. Useful economic lives are affected by the estimation of hydrocarbon reserves and resources, which is in turn impacted by available reservoir data, commodity prices and future costs. Payments (on a discounted basis) of £80 million (2015: £297 million) are currently anticipated within one to five years; £464 million (2015: £167 million) within six to 10 years; and £277 million (2015: £212 million) over 10 years.

The amount of decommissioning provision is discounted at a rate intended to reflect the time value of money. Reviews of estimated decommissioning and restoration costs and the discount rate applied are carried out annually. The discount rate applied in 2016 was 4% (2015: 3%).

18 Called up share capital

Allotted and fully paid:

	No. m	2016 £m	No. m	2015 £m
Ordinary shares of £1 each	<u>1,688</u>	<u>1,688</u>	<u>1,688</u>	<u>1,688</u>

Notes to the financial statements continued

19 Commitments and contingencies

As at 31 December 2016, the Company had placed contracts for capital expenditure amounting to £19 million (2015: £137 million).

As at 31 December 2016, the Company was committed to making the following future minimum lease payments under non-cancellable operating leases:

	2016 £m	2015 £m
Within one year	8	17
In two to five years	33	46
In over five years	11	27
	<u>52</u>	<u>90</u>

20 Events after the reporting date

On 31 January 2017, Shell agreed to sell a package of UK North Sea assets to Chrysaor for a total of up to \$3.8 billion, including an initial consideration of \$3.0 billion and a payment of up to \$600 million between 2018-2021 subject to commodity price, with potential further payments of up to \$180 million for future discoveries.

The package of assets consists of Shell's interests in: Buzzard (21.73%), Beryl (39.4%), Bressay (18.4%), Elgin-Franklin (14.1%), J-Block (30.5%), the Greater Armada cluster excluding Gaupe (76.4%), Everest (100%), Lomond (100%), Erskine (32%) and Schiehallion (10%). Shell is the operator of Armada, Everest and Lomond and upon completion of the sale, Chrysaor will assume operatorship of those assets. With the exception of Schiehallion, in which Shell will retain a 45% stake, the percentages listed represent Shell's total interest in each of the assets. The package also includes the share sale of the statutory entity BG International CNS Limited, which holds Shell's interests in a number of the assets noted.

Based on the initial consideration received, the Shell Group expects to record an accounting gain on sale. The deal is subject to partner and regulatory approvals, with completion expected in the second half of 2017. The transaction's effective date is 1 July 2016.

On 31 May 2017, the Company subscribed to additional equity shares of its subsidiary, Shell Exploration and Production Tanzania Limited (formerly known as BG Tanzania Limited) to the extent of \$686 million.

During 2017, the Company has entered into an agreement to acquire 100% interest in Chevron Trinidad & Tobago Resources SRL (CTTR), a Barbados registered company, which holds a 50% interest in Block 6, 5a and E of ECMA Block, offshore Trinidad & Tobago which includes producing fields Dolphin, Dolphin Deep, and Starfish, the predevelopment Manatee field, the T&T side of the Loran-Manatee Unit ("LMU"), which straddles the T&T/Venezuela border, and associated wells, platforms, facilities, and contracts. This transaction will increase Shell's interest in the above assets to 100%. Shell is already operator of all ECMA fields and infrastructure. Chevron has an interest in the Loran field (Venezuela) and will continue to be Unit Operator of LMU.