

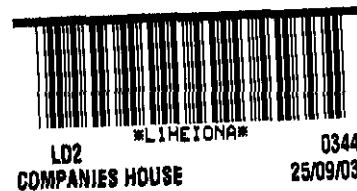
HYDROCARBON RESOURCES LIMITED

REPORT AND ACCOUNTS

FOR THE 8 MONTHS ENDED

31 DECEMBER 2002

REGISTERED NO: 3115179



Hydrocarbon Resources Limited

DIRECTORS' REPORT

The Directors present their report and the audited accounts of Hydrocarbon Resources Limited ("the Company") for the 8 months ended 31 December 2002.

Principal activities

The principal activity of the Company is the production of gas from the North and South Morecambe Gas fields.

Accounting Reference Date

Through a Directors' resolution dated 4 March 2003, the accounting reference date of the Company was changed from 30 April to 31 December. As a result, the accounting reference period applicable to the financial results of the current period is for the eight months from 1 May 2002 to 31 December 2002.

Financial results and business review

The Company, as part of the Centrica plc group, continued its major activity in the production of gas and associated condensate from its two production fields (North and South Morecambe) in Morecambe Bay. These fields represent the largest producing gas fields in the UK continental shelf, with proven and probable reserves of approximately 2,024 billion cubic feet (as at 31 December 2002). Production of gas amounted to 189 billion cubic feet (4 months ended 30 April 2002: 170 billion cubic feet) in the 8 months with total condensate sales equivalent to 311,000 barrels of oil (4 months ended 30 April 2002: 259,000 barrels of oil).

In addition to the Morecambe gas fields, Hydrocarbon Resources Limited is Operator of the Bains field (52.8% working interest). First gas on the Bains field was achieved on 7th November 2002.

The Company's profit for the 8 months is £239,730,000 (4 months ended 30 April 2002: £302,554,000).

In the 8 months to 31 December 2002, £239,730,000 has been transferred to reserves (£302,554,000 transferred to reserves for the 4 months ended 30 April 2002).

There are no plans to change the nature of activities in the foreseeable future.

Results and dividends

No dividend was paid for the 8 months ended 31 December 2002 (4 months ended 30 April 2002: £Nil).

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

Directors

The following served as Directors during the 8 month period ended 31 December 2002:

Alan Bennett
David Clarke
Michael John Garstang
Jacob Shield Ulrich

Directors' interests

At no time during the 8 months ended 31 December 2002, did any director have any interest in the shares of the Company or any other company in the Centrica plc group, except for the interests in, and the options over, the shares and interests of the ultimate parent company, Centrica plc, as set out below.

The Directors with interests in ordinary shares of Centrica plc during the period (which include those of their families), and who were holding office at the period end are as follows:

Interests in ordinary shares

	As at 1 May 2002	As at 31 December 2002
Alan Bennett	6,357	28,478
David Clarke	3,086	40,891
Michael Garstang	246	246
Jacob Ulrich	292,333	491,495

The figures above include shares appropriated under the terms of the Centrica profit sharing scheme, and shares held under the Centrica share incentive plan (SIP).

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

Sharesave scheme

	As at 1 May 2002	Granted during the period	Exercised during the period	As at 31 December 2002
Alan Bennett	5,462	-	-	5,462
David Clarke	25,669	-	(14,870)	10,799
Jacob Ulrich	37,176	-	(37,176)	-

Options over shares in Centrica plc granted in June 1998, June 2000, April 2001 and April 2002 were at an option price of 92.2, 202.6, 191.0 and 177.6 pence per share respectively.

Long term incentive schemes

	As at 1 May 2002	Granted during the period	Exercised during the period	As at 31 December 2002
Alan Bennett	173,993	-	(36,717)	137,276
David Clarke	222,484	-	(38,067)	184,417
Michael Garstang	68,851	-	-	68,851
Jacob Ulrich	1,273,881	-	(269,978)	1,003,903

Notional allocations of shares were made on 1 April 2002 at a base price of 224.7 pence. Figures as at 31 December 2002 shown above include notional allocations of shares subject to performance conditions and for David Clarke and Jacob Ulrich allocations of shares that have reached the conclusion of the relevant performance period but will not be transferred until the expiry of the retention period (a further two years).

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

Centrica Executive Share Option Scheme

	As at 1 May 2002	Granted during the period	As at 31 December 2002
David Clarke	102,176	-	102,176
Jacob Ulrich	724,439	-	724,439

Options were granted on 31 May 2001 and 30 April 2002 under the terms of the Centrica Executive Share Option Scheme at an option price of 240.05 and 224.8 pence. The options will become exercisable, to the extent that performance conditions are satisfied, three years after the date of the grant and remain exercisable until the tenth anniversary of the grant.

Options were granted under the terms of the ultimate parent company's Savings Related Share Option Scheme and New Executive Share Option, and allocations made under the terms of the Long Term Incentive Scheme and Share incentive plan. Details of these schemes can be found in the accounts of Centrica plc.

The closing price of a Centrica ordinary share on the last trading day of 2002 (31 December) was 171.0 pence. The range during the 8 month period ended 31 December 2002 was 226.25 pence (high) and 150.0 pence (low).

Creditor payment policy

The Company aims to pay all of its creditors promptly. For trade creditors, it is the Company's policy to:

- i) agree the terms of the payment at the start of business with that supplier;
- ii) ensure that suppliers are aware of the terms of payment; and
- iii) pay in accordance with contractual and other legal obligations.

The number of days of average daily purchases included in trade creditors at 31 December 2002 was 12 days (4 months ended 30 April 2002: 33 days).

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

Employment policies

The Company is committed to pursuing an Equal Opportunities policy covering recruitment and selection, training and development, appraisal and promotion. The Company recognises the diversity of its employees, its customers and the community at large and seeks to use employees' talents and abilities to the full. This approach extends to the fair treatment of people with disabilities, in relation to their recruitment, training and development. Full consideration is given to the retention of staff who become disabled during employment.

Employee communications

The Company is committed to effective communications, which it maintains through briefing sessions and company magazines. Formal communications with trade unions take place through regular meetings between representatives from the Company and trade unions. The Company has procedures for the timely and accurate communication of financial results and other significant business issues to its employees.

Directors' insurance

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 31 March 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

By order of the Board



Philip Davies
For and on behalf of:

Centrica Secretaries Limited
(Company Secretary)

Date: 17 September 2003

Registered Office:

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Hydrocarbon Resources Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR PREPARING THE FINANCIAL STATEMENTS

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Company as at the end of the financial period and of the profit or loss for the financial period.

The Directors consider that in preparing the financial statements on pages 8 to 23, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and all accounting standards which they consider to be applicable have been followed.

The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Hydrocarbon Resources Limited

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF HYDROCARBON RESOURCES LIMITED

We have audited the financial statements for the 8 months ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

As described in the statement of Directors' responsibilities the Company's Directors are responsible for the preparation of the annual report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior written consent.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the company is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2002 and of its profit for the 8 months then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

1 Embankment Place

London WC2N 6RH

Date: 17 September 2003

Hydrocarbon Resources Limited

PROFIT AND LOSS ACCOUNT FOR THE 8 MONTHS ENDED 31 DECEMBER 2002

	Notes	8 months ended 31 December 2002 £000	4 months ended 30 April 2002 £000
Turnover	3	536,962	538,312
Cost of sales		<u>(213,811)</u>	<u>(173,069)</u>
Operating profit		323,151	365,243
Other interest receivable and similar income	4	7,895	3,860
Interest payable and similar charges	4	<u>(7,930)</u>	<u>(4,125)</u>
Profit on ordinary activities before taxation	4	323,116	364,978
Tax on profit on ordinary activities	6	<u>(83,386)</u>	<u>(62,424)</u>
Profit on ordinary activities after taxation		239,730	302,554
Dividend		<u>-</u>	<u>-</u>
Retained profit for the financial period	14	<u>239,730</u>	<u>302,554</u>

All activities relate to continuing operations.

There were no recognised gains and losses other than those shown above.


The notes on pages 10 to 23 form part of these financial statements.

Hydrocarbon Resources Limited

BALANCE SHEET AS AT 31 DECEMBER 2002

	Notes	As at 31 December 2002 £000	As at 30 April 2002 £000
Fixed assets			
Tangible assets	7	782,972	847,732
Current assets			
Stocks	8	13,801	13,266
Debtors	9	2,592,685	2,486,850
Cash at bank and in hand		<u>2</u>	<u>1</u>
		2,606,488	2,500,117
Creditors (amounts falling due within one year)			
Borrowings	10	(31,280)	(28,549)
Creditors	11	<u>(109,679)</u>	<u>(271,877)</u>
		(140,959)	(300,426)
Net current assets		<u>2,465,529</u>	<u>2,199,691</u>
Total assets less current liabilities		3,248,501	3,047,423
Creditors (amounts falling due after one year)			
Borrowings	10	(59,784)	(91,016)
Provisions for liabilities and charges	12	<u>(563,456)</u>	<u>(570,876)</u>
		<u>2,625,261</u>	<u>2,385,531</u>
Capital and reserves - equity interests			
Called up share capital	13	800,000	800,000
Share premium account	14	447,162	447,162
Profit and loss account	14	<u>1,378,099</u>	<u>1,138,369</u>
Shareholder funds	15	<u>2,625,261</u>	<u>2,385,531</u>

The accounts on pages 8 to 23 were approved by the Board of Directors on 17 September 2003 and were signed on its behalf by:



Alan Bennett (Director)

The notes on pages 10 to 23 form part of these financial statements.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985. In accordance with the transitional arrangements of FRS 17, Retirement Benefits, additional disclosures are contained in the notes to the financial statements. The accounting policies, where applicable, are materially in accordance with the SORP issued by the Oil Industry Accounting Committee entitled Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities.

1 Principal accounting policies

a) Exemptions

As the Company is a wholly owned subsidiary of British Gas Trading Limited which is a wholly owned subsidiary of Centrica plc, the Company has taken advantage of the exemptions within Financial Reporting Standard No. 1 "Cash Flow Statements" from presenting a cash flow statement and within Financial Reporting Standard No. 8 "Related Party Disclosures" from disclosure of transactions with other companies that are part of the Centrica plc group.

b) Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Where the Company has ongoing obligations to provide services, revenues are apportioned on a time basis, and those monies received in advance are treated as deferred income and excluded from current turnover.

c) Cost of sales

Cost of sales include the cost of gas produced, and related transportation and royalty costs, bought in materials and services, and direct labour and related overheads on installation works, repairs and service contracts. Gas production costs include petroleum revenue taxes, calculated on a unit of production basis, with changes in estimates dealt with prospectively over the remaining lives of gas fields.

d) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities are taken to the profit and loss account. All other exchange movements are dealt with through the profit and loss account.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

1 Principal accounting policies (continued)

e) Tangible fixed assets

Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment. Freehold land is not depreciated. Other tangible fixed assets, except exploration and production assets, are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

Assets held under finance leases are depreciated over the shorter of the lease term or their useful economic life.

Exploration and production assets are depreciated from the commencement of production in the fields concerned, using the successful efforts and unit of production methods, based on all of the proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively. The net carrying value of fields in production is compared on a field-by-field basis with the likely future net revenues to be derived from the estimated remaining commercial reserves. A provision is made where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues.

f) Decommissioning costs

Provision is made for the net present cost of decommissioning gas production facilities. A corresponding tangible fixed asset is recognised in respect of the decommissioning costs, based on price levels and technology at the balance sheet date. This asset is amortised using the unit of production method, based on proved and probable developed reserves. Notional interest charges arise over time, based upon the discounted decommissioning liabilities.

g) Leases

Assets held under finance leases are capitalised and included in tangible fixed assets at cost. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within borrowings. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account as incurred.

h) Stocks

Stocks are valued at the lower of cost and net realisable value.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

1 Principal accounting policies (continued)

i) Pensions

Pensions are accounted for in accordance with SSAP 24, Pension Costs. The Company participates in group defined benefit pension schemes and contributions and pension costs are based on pension costs across the Group as a whole.

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from employees' service. The difference between the charge to the profit and loss account and the contributions paid to the Pension Schemes is shown as a provision in the balance sheet. The regular pension cost, variations from the regular pension cost and interest are all charged within employee costs, and the straight-line method is applied for amortising surpluses and interest.

j) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

1 Principal accounting policies (continued)

k) Long term incentive scheme

The cost of potential share awards under the Group's long-term incentive schemes is charged to the profit and loss account over the period to which the performance criteria of each allocation relates. Cost is defined as the market value at the date of grant, or the actual cost of shares where market purchases are made at, or around, grant date. Cost also includes National Insurance charges expected to arise at exercise dates.

l) Employee Sharesave Scheme

The cost of qualifying employee share schemes is accounted for using the market price at each balance sheet date, less the option price of shares being purchased. The cost of the scheme is recognised over the life of the scheme. Any changes in the cost of the schemes resulting from changes in the market price of the shares at the balance sheet dates are pro-rated over the remaining life of the scheme.

2 Accounting Reference Date

Through a Directors' resolution dated 4 March 2003, the accounting reference date was changed from 30 April to 31 December. As a result, the accounting reference period applicable to the financial results of the current period is for the eight months from 1 May 2002 to 31 December 2002.

3 Segmental analysis

Turnover relates to the principal activity of the business and arose wholly in the United Kingdom.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	8 months ended 31 December 2002 £000	4 months ended 30 April 2002 £000
a) Depreciation and amortisation:		
Owned assets	83,704	65,943
Leased assets	<u>8,739</u>	<u>9,940</u>
	<u>92,443</u>	<u>75,883</u>
b) Operating lease rentals:		
Other operating leases - Land and buildings	330	169
c) Auditors' remuneration:		
Audit fees	38	28
Other professional and consultancy fees	<u>-</u>	<u>5</u>
	<u>38</u>	<u>33</u>
d) Other interest receivable and similar income:		
Interest receivable from group undertakings	(7,881)	(3,860)
Other interest receivable	<u>(14)</u>	<u>-</u>
	<u>(7,895)</u>	<u>(3,860)</u>
e) Interest payable and similar charges:		
Finance lease charges	6,160	3,301
Other interest payable	123	4
Notional interest arising on discounted items	<u>1,647</u>	<u>820</u>
	<u>7,930</u>	<u>4,125</u>

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

5 Directors and employees

a) Directors' emoluments

	8 months ended 31 December 2002 £000	4 months ended 30 April 2002 £000
Aggregate emoluments	<u>93</u>	<u>56</u>

All of the Directors who served during the period are members of the ultimate parent company's defined benefit pension scheme.

Under the Centrica plc Group long-term incentive scheme, three Directors received shares during the 8 months.

b) Employee costs

	8 months ended 31 December 2002 £000	4 months ended 30 April 2002 £000
Wages and salaries	9,782	4,709
Social security costs	799	456
Other pension costs	<u>905</u>	<u>546</u>
	11,486	5,711
Redundancy costs	<u>-</u>	<u>23</u>
	<u>11,486</u>	<u>5,734</u>

c) Employee numbers

The average number of employees during the 8 months ended 31 December 2002 was 311 (4 months ended 30 April 2002: 313).

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

6 Taxation on profit on ordinary activities

	8 months ended 31 December 2002 £000	4 months ended 30 April 2002 £000
Current tax:		
- UK corporation tax at 40% (4 months ended 30 April 2002: 30%)	21,686	106,730
- Adjustments in respect of prior periods	-	8,619
Total current tax	21,686	115,349
Deferred tax:		
- Deferred petroleum revenue tax (PRT) relief	64,477	(11,136)
- Other timing differences	23,631	(39,920)
- Adjustments in respect of prior periods	(26,408)	(8,619)
- Deferred tax charge – increase in corporation tax rate	-	6,750
Taxation charge	<u>83,386</u>	<u>62,424</u>

The tax charge in the period ended 30 April 2002 comprised an increase in deferred tax provisions arising from the increase in the corporate tax rate to 40% applicable to profits on 'ring-fenced' offshore gas production from 17 April 2002.

Based upon the profit on ordinary activities before taxation, the effective taxation rate for the period was 25.9% (4 months ended 30 April 2002: 17.1%). The movement in the deferred tax provision is disclosed in note 12.

The charge for deferred petroleum revenue tax is included in cost of sales.

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	8 months ended 31 December 2002 £000	4 months ended 30 April 2002 £000
Profit on ordinary activities before tax	<u>323,116</u>	<u>364,978</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (4 months Ended 30 April 2002: 30%)	96,935	109,494
Effects of:		
- Expenses not deductible for tax purposes	(38,851)	(38,973)
- Utilisation of timing differences	(484)	1,294
- Depreciation in excess of capital allowances	7,022	19,783
- Movement on deferred PRT provision	(48,358)	11,136
- Supplementary charge on ring-fenced offshore gas production	5,422	3,996
- Adjustments to tax charge in respect of previous periods	-	8,619
Current tax charge for the period	<u>21,686</u>	<u>115,349</u>

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

7 Tangible fixed assets - proved gas properties	£000
As at 1 May 2002	2,717,931
Additions	26,115
Revision of abandonment asset	1,568
As at 31 December 2002	<u>2,745,614</u>
Accumulated depreciation	
As at 1 May 2002	1,870,199
Charge for the 8 months	92,443
As at 31 December 2002	<u>1,962,642</u>
Net book value	
As at 31 December 2002	<u>782,972</u>
As at 30 April 2002	<u>847,732</u>

The net book value of tangible fixed assets held under finance leases as at 31 December 2002 was £117,640,000 (as at 30 April 2002: £126,379,000). This represents certain South Morecambe gas field production assets sold and leased back in 1998 and 1999. The net book value of the Company's decommissioning costs at 31 December 2002 were £5,861,000 (as at 30 April 2002: £5,187,000).

8 Stocks

	As at 31 December 2002 £000	As at 30 April 2002 £000
Operational spares and consumables	<u>13,801</u>	<u>13,266</u>

9 Debtors

	As at 31 December 2002 £000	As at 30 April 2002 £000
Amounts owed by group undertakings	2,573,970	2,469,400
Other debtors	18,463	8,848
Prepayments and accrued income	252	8,602
	<u>2,592,685</u>	<u>2,486,850</u>

The amounts owed by group undertakings includes £205,000,000 (as at 30 April 2002: £205,000,000) due after more than one year.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

10 Borrowings

	As at 31 December 2002 £000	As at 30 April 2002 £000
Amount falling due within one year		
Bank overdraft	48	333
Amounts payable under finance leases	<u>31,232</u>	<u>28,216</u>
	<u>31,280</u>	<u>28,549</u>

Amounts falling due after more than one year

Amounts payable under finance leases	<u>59,784</u>	<u>91,016</u>
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Obligation under finance leases were repayable as follows:-

	As at 31 December 2002 £000	As at 30 April 2002 £000
Between one and two years	34,563	31,233
Between two and five years	<u>25,221</u>	<u>59,783</u>
Total	<u>59,784</u>	<u>91,016</u>

11 Creditors

	As at 31 December 2002 £000	As at 30 April 2002 £000
Amounts falling due within one year		
Trade creditors	1,248	3,084
Amounts owed to group undertakings	9,283	9,213
Taxation and social security	59,627	159,569
Other creditors	22,974	76,287
Accruals and deferred income	<u>16,547</u>	<u>23,724</u>
	<u>109,679</u>	<u>271,877</u>

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

12 Provisions for liabilities and charges

	Decommissioning Costs £000	Pension Costs £000	Long Term Incentive Scheme £000	Employee Sharesave Scheme £000	Deferred PRT £000	Deferred CT £000	Total £000
As at 1 May 2002	85,636	3,812	662	4,565	453,823	22,378	570,876
Revisions	1,568	-	-	-	-	-	1,568
Profit and loss charge/(credit)	1,647	905	207	(40)	34,388	61,700	98,807
Utilised in the period	-	(1,487)	-	(4,416)	(101,892)	-	(107,795)
As at 31 December 2002	<u>88,851</u>	<u>3,230</u>	<u>869</u>	<u>109</u>	<u>386,319</u>	<u>84,078</u>	<u>563,456</u>

Decommissioning costs

Provision has been made for the estimated net present cost of decommissioning gas production facilities at the end of their producing lives. The estimate has been based on proved and probable reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments are dependent on the lives of a number of fields but are anticipated to occur between 2010 and 2017. The revision in the period is due to an increase in the estimate for gas field abandonment costs. The profit and loss charge includes £1,647,000 of notional interest.

Pension costs

The pension provision represents the difference between the charge to the profit and loss account and the contributions paid to the pension schemes in respect of retirement pensions and other related benefits.

Long term incentive scheme

The provision represents the cost of potential awards under the Centrica plc long term incentive scheme.

Employee sharesave scheme

The qualifying employee sharesave scheme provision has been calculated based on the difference between the market price (as at 31 December 2002) and the option price of shares being purchased by employees through the Centrica plc sharesave scheme spread over the remaining life of the scheme.

Deferred PRT (petroleum revenue tax)

The provision for tax on gas activities has been calculated on a unit of production basis.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

12 Provisions for liabilities and charges (continued)

Deferred CT (corporation tax)

A deferred tax provision has been made in respect of accelerated capital allowances and other timing differences, net of recognised deferred tax assets. As required by FRS 19, deferred tax assets are only recognised when there is persuasive and reliable evidence that the assets can be realised. Detailed operating plans covering two years from the balance sheet date are used for deferred tax asset recognition purposes. Potential deferred tax asset utilisation falling outside that planning horizon is not currently recognised on the balance sheet. As encouraged by FRS 19, deferred tax asset recognition will be regularly reassessed.

Movement on the deferred corporation tax provision in the period is analysed below:

	As at 1 May 2002	Profit and loss charge/ (credit)	As at 31 December 2002
	£000	£'000	£'000
Deferred corporation tax			
- accelerated capital allowances	279,253	(38,964)	240,289
- deferred PRT	(219,005)	64,477	(154,528)
- other timing differences	(37,870)	36,187	(1,683)
	<u>22,378</u>	<u>61,700</u>	<u>84,078</u>

Deferred corporation tax provision/(asset) at 40% (as at 30 April 2002: 40%) is analysed as follows:-

	Provided		Unprovided	
	As at 31 December 2002	As at 30 April 2002	As at 31 December 2002	As at 30 April 2002
	£'000	£'000	£'000	£'000
Deferred corporation tax				
- accelerated capital allowances	240,289	279,253	-	-
- deferred PRT	(154,528)	(219,005)	-	-
- other timing differences	(1,683)	(37,870)	(35,844)	(304)
	<u>84,078</u>	<u>22,378</u>	<u>(35,844)</u>	<u>(304)</u>

13 Called up share capital

	As at 31 December 2002 & 30 April 2002 £000
Authorised	
800,000,100 ordinary shares of £1 each	<u>800,000</u>
Issued, allotted and fully paid	
800,000,001 ordinary shares of £1 each	<u>800,000</u>

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

14 Reserves

	Share Premium £000	Profit & Loss Account £000	Total £000
As at 1 May 2002	447,162	1,138,369	1,585,531
Retained profit for the period	-	239,730	239,730
As at 31 December 2002	<u>447,162</u>	<u>1,378,099</u>	<u>1,825,261</u>

15 Reconciliation of movements in shareholder funds

	As at 31 December 2002 £000	As at 30 April 2002 £000
Profit on ordinary activities after tax for the period	239,730	302,554
Dividends	-	-
Net movement in shareholder funds for the period	<u>239,730</u>	<u>302,554</u>
Shareholder funds at the beginning of the period	<u>2,385,531</u>	<u>2,082,977</u>
Shareholder funds at the end of the period	<u>2,625,261</u>	<u>2,385,531</u>

16 Pensions – Disclosures in accordance with FRS 17

The majority of the Company's UK employees as at 31 December 2002 were members of two of the four main schemes in the Centrica plc Group; the Centrica Staff Pension Scheme and the Centrica Engineers Pension Scheme.

These schemes have been treated as defined benefit schemes and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS17, these schemes have been treated for disclosure purposes as defined contribution schemes. The aggregate contributions to the schemes during the period were £1,487,275 (4 months ended 30 April 2002: £780,286). The amount outstanding at the balance sheet date was £nil (at 30 April 2002: £nil). The latest actuarial valuation of the schemes, prepared for the purposes of making the transitional disclosures in accordance with FRS17 in the consolidated financial statements of Centrica plc, show a total deficit of £485 million (£340 million net of deferred tax) (as at 30 April 2002: £250 million (£176 million net of deferred tax)). Further details of this valuation can be found in the annual report of Centrica plc.

The liabilities under the pension schemes will be paid out over an extended period. The Company is contributing to the pension fund on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on formal triennial funding valuations, the last of which was as at 31 March 2001. As at 1 January 2002 the Company increased its contribution rates to the schemes on the basis of actuarial advice. Since then, the company has maintained its contribution levels.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

17 Commitments and contingencies

a) Capital Expenditure

Contracted future capital expenditure as at 31 December 2002 was £1,376,000 (as at 30 April 2002: £9,258,000).

b) Operating lease commitments

As at 31 December 2002 commitments for the following year under operating leases for Land and Buildings were as follows:

	As at 31 December 2002 £000	As at 30 April 2002 £000
Expiring after five years	<u>577</u>	<u>577</u>

c) Abandonment costs

The Company and the ultimate parent company have agreed to provide security to a subsidiary undertaking of BG Group plc, BG International Limited, following the change of name of BG Exploration and Production Limited who, as original licence holder for the Morecambe gas fields, will have exposure to abandonment costs relating to the Morecambe gas fields should liabilities not be fully discharged by the Company and its ultimate parent company. The security is to be provided when the estimated future net revenue stream from the Morecambe gas fields falls below 150% of the estimated cost of such abandonment. The nature of the security may take a number of different forms and will remain in force unless and until the costs of such abandonment have been irrevocably discharged and the relevant Department of Trade and Industry abandonment notice in respect of the Morecambe gas fields has been revoked.

d) Guarantee

Centrica plc has a bilateral credit facility of up to £935,000,000 with various financial institutions. The Company was one of the guarantors of that facility, such that it has guaranteed, jointly and severally, to pay on demand any sum which Centrica plc does not pay in accordance with the facility agreement.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

18 Ultimate parent company

The Company is an indirect wholly owned subsidiary undertaking of Centrica plc. The Company's immediate parent undertaking is British Gas Trading Limited which is a wholly owned subsidiary of Centrica plc. Centrica plc is the ultimate parent undertaking and the only group to consolidate the accounts of the Company. Copies of the Annual Report and Accounts of Centrica plc may be obtained from the Company Secretary, Centrica plc, Millstream, Maidenhead, Windsor, Berkshire, SL4 5GD.

19 Post Balance Sheet Events

In the Chancellor's April 2002 budget it was announced that North Sea Royalty would be abolished. Following consultation with industry on appropriate timing, the Government abolished North Sea Royalty, which applied only to older fields, with effect from 1 January 2003. Included within the profit and loss account for the 8 months ended 31 December 2002 is a North Sea Royalty charge of £30m.

Hydrocarbon Resources Limited

GAS RESERVES

The principal fields in the UK are South Morecambe and North Morecambe.

Estimated net proven and probable reserves of gas (billion cubic feet)

	UK
As at 1 May 2002	2,237
Production	<u>(191)</u>
As at 31 December 2002	<u>2,046</u>