HYDROCARBON RESOURCES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2007

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Hydrocarbon Resources Limited
Directors' report for the year ended 31 December 2007

The Directors present their report and the audited financial statements of Hydrocarbon Resources Limited (the 'Company") for the year ended 31 December 2007

Principal activities
The principal activity of the Company is the production of gas from the North and South Morecambe gas fields

Business review
The Company, as part of the Centrica plc group ("the 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 gas fields represent proven and probable reserves of approximately 943 billion cubic feet at 31 December 2007 (31 December 2006 1,016 billion cubic feet) Production of gas amounted to 156 billion cubic feet (31 December 2006 120 billion cubic feet) in the period with total condensate sales equivalent to 380,000 barrels of oil (31 December 2006 460,000 barrels of oil equivalent)

In addition to the Morecambe gas fields, Hydrocarbon Resources Limited is operator of the Bains field (52 8% working interest)

Financial results
The results of the company are set out on page 6

The Company's profit after tax for the year is £175,761,000 (period ended 31 December 2006 £527,926,000) In the year to 31 December 2007, £175,761,000 has been transferred to reserves (£527,926,000 transferred to reserves for the period ended 31 December 2006)

Dividends
No dividends were paid during the year and the Directors do not recommend the payment of a dividend (period ended 31 December 2006 nil)

Principal risks and uncertainties and financial risk management
From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately Accordingly, the principal risks and uncertainties of the Group, which include those of the Company are discussed on pages 25-27 of the 2007 Annual Report and Accounts of the Group which does not form part of this report

The Directors have established objectives and policies for managing business and financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework These objectives and policies are regularly reviewed

Exposure to commodity price risk, counterparty credit risk and liquidity risk arise in the normal course of the Company's business and is managed within parameters set by the Directors

The most significant financial risk facing the Company relates to commodity prices, in particular for gas Commodity price risk is primarily, that market prices for commodities will move adversely, thereby potentially reducing expected margins

Exposure to credit risk is limited predominantly to exposures with other Centrica group companies but arises in the normal course of operations as a result of the potential for a customer defaulting on their payable balance In the case of external customers credit risk is managed by checking a company's creditworthiness and financial strength both before commencing to trade and during a business relationship

Principal risks and uncertainties and financial risk management - continued

Cash forecasts identifying the liquidity requirements of the Company are produced frequently and reviewed regularly to ensure there is sufficient financial headroom for at least the subsequent 12 month period

The Company does not take part in hedging of any kind

Key performance indicators

The Directors of the Group use a number of key performance indicators to monitor progress against the Group's strategy The development, performance and position of the Group, which includes the Company, are discussed on pages 14-15 of the 2007 Annual Report and Accounts of the Group which does not form part of this report

Future developments

There are no plans to change the nature of activities in the foreseeable future The Company is in a good position to take advantage of any opportunities which may arise in the future

Directors

The following served as Directors during the year and up to the date of this report

P K Cochrane
A D Le Poidevin
J N Shears
V M Hanafin (appointed 31 July 2008)
M J Garstang (resigned 30 June 2008)
J S Ulrich (resigned 31 July 2008)

Related party transactions

The Company has taken advantage of the exemptions within Financial Reporting Standard No 8 "Related Party Disclosures" from disclosure of transactions with other Centrica group companies There have been no other related party transactions during the year requiring disclosure (period ended 31 December 2006 nil)

Creditor payment policy

It is the Company's policy to pay all of its creditors in accordance with the policies set out below For all other trade creditors, it is the Company's policy to

i) agree the terms of payment in advance with the 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' purchases outstanding as at 31 December 2007 was 28 days (2006 18 days)

Political and charitable donations

The Company made £13,362 political or charitable donations during the period (2006 £11,108)

Employment policies
Durıng 2007, the Company employed an average of 294 people, all employed ın the Unıted Kıngdom (2006 301) The dısclosures surroundıng the 'Employee Costs' and the 'Average number of employees durıng the year' (see note 4) relate to Centrıca Group employees that work ın the Hydrocarbon Resources Lımıted busıness Not all of these employees have servıce contracts wıth Hydrocarbon Resources Lımıted, because ın some cases the contracts of servıce are wıth other Centrıca Group companıes The Dırectors belıeve that the dısclosures gıven are the faırest representatıon of the staff costs for the busıness

Employees are regularly updated on performance agaınst the Company's strategy There are regular employee surveys, actıon plannıng forums and dıalogue wıth representatıves of local employee consultatıve bodıes and recognısed trade unıons to ensure a comprehensıve understandıng of employees' vıews The Centrıca Group, to whıch Hydrocarbon Resources Lımıted belongs, encourages employee share ownershıp by operatıng tax authorıty-approved share schemes open to all elıgıble employees, ıncludıng executıve dırectors

The Company ıs commıtted to pursuıng equalıty and dıversıty ın all ıts employment actıvıtıes and contınues to support ınıtıatıves to provıde employment for people from mınorıty groups ın the communıty, ıncludıng people wıth a dısabılıty, carers and lone parents To the extent possıble, people wıth a dısabılıty are offered the same employment traınıng, career development and promotıon opportunıtıes as other employees

The Company's busıness prıncıples and polıcıes set out standards of behavıour expected of ıts employees ın conductıng busıness ın an ethıcal way

Directors and Officers Liabılity
Dırectors and officers lıabılıty ınsurance has been purchased by the ultımate parent company, Centrıca plc, and was ın place throughout the perıod under revıew

Hydrocarbon Resources Limited
Directors' report for the year ended 31 December 2007-continued

Statement of Directors' responsibilities
Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss for that period

In preparing those financial statements 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 Financial Statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 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

Disclosure of information to auditors
Each of the Directors who held office at the date of approval of this Director's Report confirm that so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and he has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors
In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to reappoint auditors annually, and PricewaterhouseCoopers LLP will therefore continue in office

This report was approved by the board on 28 October 2008

For and on behalf of
Centrica Secretaries Limited
Company Secretary

Registered Office
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

Hydrocarbon Resources Limited
Independent Auditors' Report to the member of Hydrocarbon Resources Limited

We have audited the financial statements of Hydrocarbon Resources Limited for the period ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The directors' responsibilities for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) 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 into whose hands it may come save where expressly agreed by our prior consent in writing

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 information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London
WC2N 6RH
28 October 2008

Hydrocarbon Resources Limited
Profit and Loss Account for the year ended 31 December 2007

	Notes	Year ended 31 December 2007 £000	Period ended 31 December 2006 £000
Turnover	2	**579,587**	827,809
Cost of sales		**(434,243)**	(218,306)
Gross profit		**145,344**	609,503
Other income		**-**	6,895
Operating profit		**145,344**	616,398
Interest receivable and similar income	5	**118,147**	82,047
Interest payable and similar charges	5	**(22,203)**	(2,701)
Profit on ordinary activities before taxation	3	**241,288**	695,744
Tax on profit on ordinary activities	6	**(65,527)**	(167,818)
Profit for the financial year and retained profit for the financial year		**175,761**	527,926

All activities relate to continuing operations

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

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historic cost equivalents

A statement of movements in equity shareholders' funds is shown in note 17

The notes on pages 8 to 22 form part of these financial statements

Hydrocarbon Resources Limited
Balance Sheet as at 31 December 2007

	Notes	As at 31 December 2007 £000	As at 31 December 2006 £000
Fixed assets			
Intangible fixed assets	7	**100**	100
Tangible fixed assets	8	**438,857**	431,351
		438,957	431,451
Current assets			
Stocks	9	**17,724**	16,576
Debtors (amount receivable within one year)	10	**3,234,001**	3,016,810
Cash at bank and in hand		**497**	46
		3,252,222	3,033,432
Creditors (amounts falling due within one year)			
Borrowings	11	**(15)**	(30)
Creditors	12	**(241,234)**	(149,158)
		(241,249)	(149,188)
Net current assets		**3,010,973**	2,884,244
Total assets less current liabilities		**3,449,930**	3,315,695
Creditors (amounts falling due after one year)			
Borrowings	11	**(222)**	(222)
Creditors	12	**(266,491)**	(428,553)
		(266,713)	(428,775)
Provisions for liabilities and charges	13,14	**(424,929)**	(304,627)
Net assets		**2,758,288**	2,582,293
Capital and reserves - equity interests			
Called up share capital	15	**800,000**	800,000
Share premium account	16	**447,162**	447,162
Share option reserve	16	**1,616**	1,382
Profit and loss account	16	**1,509,510**	1,333,749
Equity shareholder funds	17	**2,758,288**	2,582,293

The financial statements on page 6 to 22 were approved and authorised for issue by the Board of Directors on 28 October 2008 and were signed on its behalf by

Andrew Le Poidevin
Director

The notes on pages 8 to 22 form part of these financial statements

1 Principal accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost convention and the Companies Act 1985 The accounting policies, where applicable, are in accordance with the Statement of Recommended Practice ('SORP') 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' issued by the UK Oil Industry Accounting Committee on 7 June 2001 The following policies have been applied consistently to the Company's financial statements

The comparative information for the period ended 31 December 2006 is for a period of 1 year and 1 day (period commenced 31 December 2005) As a result, comparatives for the profit and loss account and the related notes are not comparable to the current year data

b) Pensions and other retirement benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes The Company is unable to identify its share of the underlying assets and liabilities in these scheme on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes The charge to the profit and loss account is equal to the contributions payable to the schemes in the accounting period, which are based on pension costs across the Group as a whole

c) 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 FRS 1, "Cash Flow Statements" from presenting a cash flow statement and within FRS 8, "Related Party Disclosures" from disclosure of transactions with other companies that are part of the Centrica plc group

d) 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

Turnover includes the Company's share of turnover arising within The Centrica Gas Production LP, a limited partnership in which the Company holds a general partnership interest and fees earned from the provision of gas production services in the North and South Morecambe gas fields to The Centrica Gas Production LP The fees are recognised on the basis of services rendered in the period

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

e) 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 Cost of sales includes the Company's share of cost of sales arising within The Centrica Gas Production LP, a limited partnership in which the Company holds a general partnership interest

f) 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 Period end exchange rates used were £1 $1 983 (2006 £1 $1 959) Foreign currency transactions are translated at the average exchange rate for the period in which they occur

1 Principal accounting policies- continued

g) Emissions Trading Scheme

Granted CO_2 emissions allowances received in a period are initially recognised at nominal value (nil value) Purchased CO_2 emissions allowances are initially recognised at cost (purchase price) within intangible fixed assets A liability is recognised when the level of emissions exceeds the level of allowances granted The intangible asset is surrendered at the end of the compliance period reflecting the consumption of economic benefit As a result no amortisation is recorded during the period

h) Fixed assets

Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment 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, as defined in the SORP, 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

Intangible fixed assets are included in the balance sheet at cost, less provisions for impairment

i) 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 proven and probable developed reserves Notional interest charges arise over time, based upon the discounted decommissioning liabilities

j) 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 on a straight line basis

k) Stocks

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

l) 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

1 Principal accounting policies- continued

l) Taxation- continued

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

m) Employee Share Schemes

As a subsidiary of Centrica plc, the Company participates in a number of the Group's employee share schemes under which it makes equity-settled share based payments in Centrica plc shares to certain employees These are detailed in the Annual Report and Accounts of Centrica plc

Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based vesting conditions) The fair value determined at the grant date is expensed on a straight line basis together with the corresponding increase in equity over the vesting period, based on the Group's estimate of the number of shares that will vest and adjusted for the effect of non market-based conditions

Fair value is measured using methods appropriate to each of the different schemes as follows

LTIS awards up to 2005	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the Total Shareholder Return performance
LTIS 2006 EPS awards	Market value on date of grant
LTIS 2006 TSR awards	A Monte Carlo simulation to predict the Total Shareholder Return performance
Sharesave	Black-Scholes
SAS and SIP	Market value on date of grant

The Company has taken advantage of the transitional provisions of FRS20 "Share-based payment" in respect of equity-settled awards and has applied FRS20 only to equity-settled awards granted after 7 November 2002, that were unvested at 1 January 2005

n) Commercial reserves

Commercial reserves are proved and probable developed and undeveloped oil and gas reserves as defined in the SORP

o) The Centrica Gas Production LP

The Company is general partner to The Centrica Gas Production LP, a limited partnership and subsidiary of the Company The Company accounts for its share of The Centrica Gas Production LP partnership profits and losses within the profit and loss account and its share of The Centrica Gas Production LP partnership assets and liabilities within the balance sheet by proportional consolidation

1 Principal accountıng policies- continued

p) Deferred Income – The Centrıca Gas Production LP

Deferred ıncome represents the Company's share of cash ınvested by a lımıted partner to the Centrıca Gas Productıon LP ın exchange for a lımıted partnershıp entıtlıng ıt to profits from the South Morecambe gas field for the next five years The Company, as General Partner to the partnershıp, ıs under no oblıgatıon to return the cash to the lımıted partner The ıncome ıs deferred and ıs recognısed wıthın turnover on a unıt of productıon basıs based on South Morecambe productıon ın the perıod compared to total productıon over the seven year perıod to whıch ıt relates

2 Segmental analysis

Turnover relates to the prıncıpal actıvıtıes of the busıness and arose wholly ın the Unıted Kıngdom and comprıses

Turnover	Year ended 31 December 2007 £000	Perıod ended 31 December 2006 £000
HRL sales of gas and condensate	**176,740**	259,753
The Centrıca Gas Productıon LP	**402,847**	568,056
	579,587	827,809

Turnover – The Centrıca Gas Productıon LP represents the Company's share of turnover arısıng wıthın The Centrıca Gas Productıon LP Thıs ıncludes £120,605,000 (2006 £76,923,000) relatıng to the release of deferred ıncome as descrıbed ın more detaıl ın note 12

3 Profit on ordinary activities before taxation

Profit on ordınary actıvıtıes before taxatıon ıs stated after chargıng

	Year ended 31 December 2007 £000	Perıod ended 31 December 2006 £000
a) Depreciation and amortısation:		
Owned assets	**59,817**	49,969
Leased assets	**8,275**	5,284
	68,092	55,253
b) Operating lease rentals:		
Land and buıldıngs	**373**	373
Other operatıng leases	**295**	295
	668	668
c) Auditors' remuneratıon		
Audıt fees	**7**	7

Audıtors' remuneratıon relates to fees for the audıt of the UK GAAP statutory accounts of Hydrocarbon Resources Lımıted In lıne wıth Tech 6/06, 'Dısclosure of audıtor remuneratıon', ıssued by the ICAEW, ıt excludes fees ın relatıon to the audıt of the IFRS group consolıdatıon schedules for the purpose of the Centrıca Group audıt, whıch are borne by Centrıca Plc Prıor year audıt fees have been restated to reflect thıs change

4 Directors and employees

i) Directors' remuneration

None of the Directors received any fees or remuneration from the Company for services as directors of the Company during the financial year All of the Directors who served during the period are members of the ultimate parent company's defined benefit pension scheme

ii) Employee costs

	Year ended 31 December 2007 £000	Period ended 31 December 2006 £000
Wages and salaries	15,094	14,306
Social security costs	1,471	1,479
Other pension and retirement benefit costs	4,723	2,439
Long-term Incentive Scheme	67	22
Sharesave Scheme	231	233
Share Incentive Plan	98	98
Share Award Scheme	72	29
	42,855	18,606

Wages and salaries relate to permanent staff members

The 2006 balance for the Share save Scheme has been separated out to show the Share Incentive Plan balance in 2006 for comparability with the current year

iii) Employee numbers

The average number of employees during the period ended 31 December 2007 was 294 (period ended 31 December 2006 301)

	Year ended 31 December 2007	Period ended 31 December 2006
Production	260	268
Admin	34	33
	294	301

5 Interest

	Year ended 31 December 2007 £000	Period ended 31 December 2006 £000
i) Interest receivable and similar income:		
Interest received from group undertakings	118,144	82,047
Other	3	-
	118,147	82,047
ii) Interest payable and similar charges.		
Interest payable to group undertakings	457	-
Other interest payable	18,461	-
Notional interest arising on discounted items	3,285	2,701
	22,203	2,701

6 Tax on profit on ordinary activities

(a) Analysis of tax charge in the period

The tax charge comprises

	Year ended 31 December 2007 £000	Period ended 31 December 2006 £000
Current tax:		
- UK corporation tax at 30% (2006 30%)	**55,593**	28,757
- Supplemental Upstream Tax at 20% (2006 10%)	**34,673**	12,576
- Adjustments in respect of prior years	**69,573**	(3,155)
Total current tax	**159,839**	38,178
Deferred tax:		
- Effect of increase in supplementary charge rate	-	9,301
- Deferred petroleum revenue (PRT) relief	**(81,204)**	27,579
- Origination and reversal of timing differences	**(14,252)**	91,619
- Adjustments in respect of prior periods	**1,141**	1,141
Taxation charge	**65,527**	167,818

(b) Factors affecting the tax charge for the period

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 are as follows

	Year ended 31 December 2007 £000	Period ended 31 December 2006 £000
Profit/(loss) on ordinary activities before tax	**241,288**	695,744
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% (2006 30%)	**72,386**	208,723
Effects of		
Net income not taxable	**(79,881)**	(94,217)
Utilisation of timing differences	**2,453**	(37,710)
Depreciation in excess of capital allowances	**8,549**	(5,627)
Movement on deferred PRT provision	**48,723**	(26,491)
Supplementary charge applicable to upstream profits	**34,673**	12,576
UK- UK transfer pricing	**3,363**	9,776
Group relief for nil consideration	-	(25,697)
Adjustments to tax charge in respect of previous periods	**69,573**	(3,155)
Current tax charge for the year	**159,839**	38,178

From 1 April 2008 the standard rate of UK Corporation tax reduces to 28%

7 Intangible fixed assets

	£000
Cost	
At 31 December 2006 & 31 December 2007	**456**
Amortisation	
As at 31 December 2006	356
Impairment charge for the period	-
As at 31 December 2007	**356**
Net book value as at 31 December 2007	**100**
Net book value as at 31 December 2006	100

8 Tangible fixed assets

	£000
Cost	
As at 31 December 2006	2,863,386
Additions	21,238
Revisions of abandonment asset	54,360
As at 31 December 2007	**2,938,984**
Depreciation and amortisation	
As at 31 December 2006	2,432,035
Charge for the period	68,092
As at 31 December 2007	**2,500,127**
Net book value as at 31 December 2007	**438,857**
Net book value as at 31 December 2006	431,351

The net book value of tangible fixed assets held under finance leases, as at 31 December 2007, was £63,099,122 (2006 £58,943,000) 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 2007 were £84,708,634 (2006 £35,238,000)

9 Stocks

	As at 31 December 2007 £000	As at 31 December 2006 £000
Operational spares and consumables	**17,724**	16,576

10 Debtors

	As at 31 December 2007 £000	As at 31 December 2006 £000
Amounts receivable within one year:		
Amounts owed by group undertakings	**3,171,887**	2,776,847
Social security and other taxation	**47,864**	234,265
Other debtors	**14,250**	5,698
	3,234,001	3,016,810

The 2006 balance for Other debtors has been separated out to show the Social security and other taxation balance in 2006 for comparability with the current year

11 Borrowings

	As at 31 December 2007 £000	As at 31 December 2006 £000
Amount falling due within one year		
Amounts payable under finance leases	**15**	30
Amounts falling due after more than one year:		
Amounts payable under finance leases	**222**	222
Obligations under finance leases were repayable as follows:		
Less than one year	**15**	30
Between one and two years	**30**	30
Between two and five years	**120**	120
After more than five years	**72**	72
	237	252

12 Creditors

	As at 31 December 2007 £000	As at 31 December 2006 £000
Amount falling due within one year		
Trade creditors	**7,363**	3,070
Amounts owed to group companies	**9,683**	35,797
Taxation and social security	**52,885**	-
Accruals and deferred income	**46,094**	26,538
Deferred income – The Centrica Gas Production LP	**125,209**	83,753
	241,234	149,158
Amounts falling due after more than one year:		
Deferred income – The Centrica Gas Production LP	**266,491**	428,553

Deferred income – The Centrica Gas Production LP represents the Company's share of cash invested by a limited partner in The Centrica Gas Production LP in exchange for a limited partnership interest representing entitlement to profits from South Morecambe gas field for a seven year period The Company, as General Partner to the partnership, is under no obligation to return the cash to the limited partner The income has been deferred and is released to turnover on a unit of production basis based on South Morecambe production in the period compared to estimated total production over the seven year period to which it relates The amount released during the year was £120,605,000 (2006 £76,923,000)

13 Provisions for liabilities and charges

	Decommissioning costs £000	Deferred PRT £000	Deferred CT £000	Other provisions £000	Total £000
As at 1 January 2007	137,783	-	166,844	-	**304,627**
Revisions	54,360	-	-	-	**54,360**
Profit and loss charge/(credit)	3,279	156,966	(94,313)	10	**65,943**
As at 31 December 2007	**195,422**	**156,966**	**72,531**	**10**	**424,929**

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 2009 and 2026 The revision in the period is due to an increase in the estimate for gas field abandonment costs The profit and loss charge includes £3,279,000 (period ended 31 December 2006 - £2,701,000) of notional interest

Deferred PRT (petroleum revenue tax)
The provision for tax on gas activities has been calculated on a unit of production basis

14 Deferred 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 January 2007 £000	Profitand loss charge/(credit) £000	**As at 31 December 2007 £000**
Deferred corporation tax			
-accelerated capital allowances	168,698	(14,284)	**154,414**
-deferred PRT	2,721	(81,204)	**(78,483)**
-other timing differences	(4,575)	1,175	**(3,400)**
	166,844	**94,313**	**72,531**

Deferred corporation tax provision/(asset) at 50% (as at 31 December 2006 50%) is analysed as follows

	Amounts provided		**Potential amounts unprovided**	
	2007 £000	2006 £000	**2007 £000**	2006 £000
-accelerated capital allowances	**154,414**	168,698	-	-
-deferred PRT	**(78,483)**	2,721	-	-
-other timing differences	**(3,400)**	(4,575)	**(55,736)**	(51,651)
	72,531	166,844	**(55,736)**	(51,651)

Changes to UK tax law substantively enacted in July 2008 relating to relief for upstream losses will result in a re-appraisal in 2008 of the company's unrecognised deferred tax asset's which may lead to full recognition of substantially all of the above amount

15 Called up share capital

	As at 31 December 2007 £000	As at 31 December 2006 £000
Authorised:		
800,000,100 ordinary shares of £1 each	**800,000**	800,000
Allotted, called up and fully paid		
800,000,001 ordinary shares of £1 each	**800,000**	800,000

16 Reserves

	Share premium account £000	Share option reserve £000	Profit and loss account £000	Total £000
1 January 2007	447,162	1,382	1,333,749	**1,782,293**
Profit for the period	-	-	175,761	**175,761**
Employee share option schemes	-	234	-	**234**
31 December 2007	**447,162**	**1,616**	**1,509,510**	**1,958,288**

17 Reconciliation of movements in equity shareholder funds

	2007 £000	2006 £000
1 January 2007	**2,582,293**	2,053,985
Profit for the period	**175,761**	527,926
Employee share option schemes	**234**	382
31 December 2007	**2,758,288**	2,582,293

18 Share based payments

Employee share schemes are designed to encourage participants to align their objectives with those of the shareholders Centrica plc operates a number of employee share schemes including the Long Term Incentive Scheme (LTIS), Sharesave, the Share Award Scheme (SAS), and the Share Incentive Plan (SIP) These are described in the Directors' Report on page 32 of the Centrica plc Annual Report and Accounts 2007, and in the Remuneration Report on pages 43 to 51 of the Centrica plc Annual Report and Accounts 2007 There were no other share-based payment transactions during the period

LTIS

Under the LTIS, allocations of shares in Centrica plc are made to employees of the Group Awards under the LTIS are generally reserved for employees at senior management level

For awards made up to 2005, the number of shares that are to be released to participants is calculated subject to Centrica plc's total shareholder return (TSR) during the three years following the grant date, compared to the TSR of other shares in the FTSE 100 Index over the same period The number of shares released is reduced on a sliding scale if Centrica plc's TSR is ranked between 50th and 25th Shares are released to participants immediately following the end of the period in which TSR performance is assessed, but release of shares is subject to continued employment within the Group at the date of release Allocations were valued using the Black-Scholes option pricing model Performance conditions were included in the fair value calculations, through the use of a Monte Carlo simulation model

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Notes to the financial statements for the year ended 31 December 2007- continued

18 Share based payments-continued

For awards made from 2006, the vesting of only half of each award is made on the basis of TSR performance For this half of the award, the calculation of TSR performance as compared to the TSR of other FTSE 100 index shares is consistent with awards made to the end of 2005, except that allocations are valued using a Monte Carlo simulation model The number of shares released is increased on a sliding scale between 25% and 100% if Centrica plc's TSR is ranked between 50th and 20th The vesting of the remaining half of awards made since 2006 is dependent on earnings per share (EPS) growth This is considered a non-market condition under FRS 20 and dividends attach to the awards, requiring the shares to be fair valued at market value on the date of grant The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest For shares that vest on awards made from 2006 (for both TSR and EPS portions) the cash payment is increased to reflect the dividends that would have been paid on them during the performance period The fair values and the related assumptions used in the calculations are as follows

Grant date	14 September 2007	4 April 2007	4 September 2006	19 May 2006	2 May 2006	23 September 2005	1 April 2005	1 September 2004	1 April 2004
Share price at grant date	£3 77	£3 91	£3 03	£2 65	£3 01	£2 46	£2 28	£2 46	£2 30
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil	£nil	£nil	£nil
Number of shares originally granted	228,423	6,289,643	654,396	1,456,064	6,153,355	456,421	8,408,130	310,460	9,765,341
Vesting period	3 yrs	3 yrs	3 yrs	2 9 yrs	2 9 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected volatility (i)	21%	21%	22%	22%	21%	30%	30%	27%	27%
Contractual life	3 yrs	3 yrs	3 yrs	2 9 yrs	2 9 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected life	3 yrs	3 yrs	3 yrs	2 9 yrs	2 9 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Risk-free rate	5 40%	5 40%	4 80%	4 80%	4 70%	4 80%	4 68%	5 00%	5 04%
Expected dividend yield	n/a	n/a	n/a	n/a	n/a	4 37%	4 37%	4 82%	4 82%
Expected forfeitures	20%	20%	20%	20%	20%	20%	20%	20%	20%
Average volatility of FTSE 100	30%	30%	30%	30%	30%	30%	30%	30%	30%
Average cross-correlation of FTSE 100	(ii)	(ii)	(ii)	(ii)	(ii)	(ii)	(ii)	30%	30%
Fair value per share allocated - TSR awards	£2 26	£2 26	£1 66	£1 38	£1 80	£1 20	£1 03	£1 25	£1 17
Fair value per share allocated - EPS awards	£3 77	£3 91	£3 03	£2 65	£3 01	n/a	n/a	n/a	n/a

(i) The expected volatility is based on historical volatility over the last three years, except in the case of options granted in 2003, where historical volatility over the preceding three years was 43% This was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999-2000 In this case the volatility was reassessed ignoring this period The expected life is the contract life The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life A reconciliation of movements in allocations is shown below

	2007 Number	2006 Number
Outstanding at start of period	57,147	83,947
Granted	31,803	57,147
Exercised	-	(41,218)
Forfeited – performance related	-	(13,740)
Forfeited – non-performance related	(20,873)	(28,989)
Outstanding at the end of the period	68,077	57,147
Exercisable at the end of the period	-	-

(ii) From 2005, the cross-correlation of the FTSE 100 has been obtained from a model which calculates the correlation between Centrica's historical share price and each of the FTSE 100 over the period commensurate with the performance period of the awards

There were no shares released during 2007 (the weighted average share price of releases in 2006 was £2 89)

18 Share based payments-continued

Sharesave

Under Sharesave, the Board of Centrica plc may grant options over shares in Centrica plc to UK-based employees of the Group Options are granted with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date Employees pay a fixed amount from salary into a savings account each month, and may elect to save over three or five years At the end of the savings period, employees have six months in which to exercise their options using the funds saved including interest earned If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire Exercise of options is subject to continued employment within the Group Options were valued using the Black-Scholes option pricing model The fair values and the related assumptions used in the calculations are as follows

Grant date	**4 April 2007**	**4 April 2007**	**10 April 2006**	**10 April 2006**	**6 April 2005**	**6 April 2005**	**1 April 2004**	**8 April 2003**
Share price at grant date	£3 91	£3 91	£2 86	£2 86	£2 36	£2 36	£2 30	£1 59
Exercise price	£2 91	£2 91	£2 38	£2 38	£1 88	£1 88	£1 83	£1 07
Number of options originally granted	3,095,084	6,231,230	3,587,711	8,548,648	4,329,658	5,791,571	3,854,639	37,280,748
Vesting period	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	5 yrs
Expected volatility (i)	27%	21%	25%	23%	30%	30%	27%	35%
Contractual option life	5 5yrs	5 5yrs	5 5yrs	3 5 yrs	5 5 yrs	3 5 yrs	5 5 yrs	5 5 yrs
Expected life	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	5 yrs
Risk-free rate	5 2%	5 4%	4 5%	4 5%	4 65%	4 64%	5 13%	3 90%
Expected dividend yield	3 7%	3 7%	4 1%	4 1%	4 37%	4 37%	4 82%	3 09%
Expected forfeitures	40%	25%	40%	25%	40%	25%	40%	40%
Fair value per option	£1 28	£1 14	£0 72	£0 65	£0 68	£0 64	£0 61	£0 64

(i) The expected volatility is based on historical volatility over the last three years except in the case of options granted in 2003, where historical volatility over the preceding three years was 43% and this was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999-2000 In this case the volatility was reassessed ignoring this period The expected life is the contract life The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life A reconciliation of movements in allocations is as follows

	2007		**2006**	
	Number	**Weighted average exercise price £**	**Number**	**Weighted average exercise price £**
Outstanding at start of period	1,709,170	1 49	2,430,625	1 21
Adjustment to allocations(ii)	(49,072)	1 49	-	-
Granted	122,974	2 91	341,832	2 38
Exercised	(103,243)	1 81	(938,205)	1 09
Lapsed	(27,282)	1 90	(125,082)	1 40
Expired	-	-	-	-
Outstanding at the end of the period	1,652,547	1 57	1,709,170	1 49
Exercisable at the end of the period	-	-	-	-

(ii) The adjustment to allocations arises as a result of the reclassification of employees of Centrica plc between the Company and other Group companies

18 Share based payments-continued

For options outstanding at the end of the period, the range of exercise prices and the average remaining life was as follows

2007				2006			
Range of exercise prices	Weighted average exercise price	Number of shares	Average remaining contractual life Years	Range of exercise prices	Weighted average exercise price	Number of shares	Average remaining contractual life Years
£1 00 – £1 09	1 07	977,796	0 9	£1 00 – £1 09	1 07	1,004,786	1 3
£1 70 – £1 79	-	Nil	-	£1 70 – £1 79	1 78	40,541	0 3
£1 80 – £1 89	1 86	248,224	1 9	£1 80 – £1 89	1 86	334,805	1 9
£1 90 – £1 99	-	Nil	-	£1 90 – £1 99	-	Nil	-
£2 30 – £2 39	2 38	303,553	2 4	£2 30 – £2 39	2 38	329,038	2 7
£2 90 – £2 99	2 91	122,974	3 8	£2 90 – £2 99	-	Nil	-
	1 57	1,652,547	1 6		1 49	1,709,170	1 7

For options exercised during the period the weighted average share price was £3 77 (2006 £2 80)

SAS

Under the SAS, allocations of shares in Centrica plc are made to employees of the Group Awards under the SAS are generally reserved for certain selected employees at middle management levels, based on recommendation by the executive There is no contractual eligibility for SAS and each year's award is made independently from previous awards For the 2007 award, 9 employees were eligible to participate Allocations are subject to no performance conditions and vest unconditionally subject to continued employment with the Group in two stages – half of the awards vesting after two years, the other half vesting after three years On vesting, additional shares or a cash payment are made to reflect dividends that would have been paid on the allocations during the retention period The fair value is therefore considered to be the market value at date of grant The fair value is therefore considered to be the market value at date of grant

The fair values and related assumptions used to calculate the cost to the Group are as follows

Grant date	4 April 2007	4 April 2007	3 April 2006	3 April 2006
Share price at grant date	£3 91	£3 91	£2 84	£2 84
Exercise price	£nil	£nil	£nil	£nil
Number of options originally granted	585,022	584,781	65,459	65,440
Vesting period	3 yrs	2 yrs	3 yrs	2 yrs
Contractual option life	3 yrs	2 yrs	3 yrs	2 yrs
Expected forfeitures	25%	15%	25%	15%
Fair value per option	£3 91	£3 91	£2 84	£2 84

A reconciliation of movements in the allocations is as follows

	2007 Number	2006 Number
Outstanding at start of period	40,240	-
Granted	31,615	42,728
Shares sold and transferred out of the plan	-	-
Forfeited	-	(2,488)
Outstanding at end of period	71,855	40,240
Exercisable at end of period	-	-

18 Share based payments-continued

There were no shares released dunng 2007 (the weighted average share pnce of releases in 2006 was £3 40)

SIP

Under SIP, employees in the UK may purchase 'partnership shares' through monthly salary deductions The Company then grants one 'matching share' for every two purchased, up to a maximum of 20 matching shares per employee per month Both partnership shares and matching shares are held in a trust initially Partnership shares may be withdrawn at any time, but matching shares are forfeited if the related partnership shares are withdrawn within three years from the original purchase date Matching shares vest unconditionally for employees after being held for three years in the trust Vesting of matching shares is also subject to continued employment within the Group Matching shares are valued at the market pnce at the grant date The average fair value of these awards dunng the penod was £3 72 (2006 £2 97) A reconciliation of matching shares granted is shown below

	2007 Number	2006 Number
Unvested at start of penod	83,880	71,508
Granted	30,805	24,066
Vested	(9,794)	(6,908)
Forfeited	(4,124)	(4,786)
Unvested at end of penod	100,767	83,880

19 Commitments and contingent liabilities

a) Capital expenditure

Contracted future capital expenditure, as at 31 December 2007, was £6,128,268 (as at 31 December 2006 £19,218,000)

b) Operating lease commitments

As at 31 December 2007 commitments for the following year under operating leases were as follows

	Land and buildings		Other	
	As at 31 December 2007 £000	As at 31 December 2006 £000	**As at 31 December 2007 £000**	As at 31 December 2006 £000
Expiring after five years	**373**	373	**295**	295

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 £1,300,000,000 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

19 Commitments and contingent liabilities - continued

e) Contingent liabilities

There are no contingent liabilities which require disclosure

20 Pensions

The majority of the Company's UK employees as at 31 December 2007 were members of one of the three main schemes in the Centrica plc Group, the Centrica Pension Scheme, the Centrica Engineers Pension Scheme and the Centrica Management Pension Scheme

These are 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 as defined contribution schemes The aggregate contributions to the schemes during the period were £4,723,000 (2006 £2,439,000) The amount outstanding at the balance sheet date was £nil (2006 £nil) The latest actuarial valuation of the schemes, updated for the purposes of FRS17 show a total asset of £97 million (£69 million net of deferred tax) (2006 total deficit of £291 million (£204 million net of deferred tax) These pension schemes are included on a consolidated basis within the group financial statements of Centrica plc as prepared under IFRS

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 funding valuations, carried out at least triennialy, the last of which was as at 31 March 2007

21 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 financial statements of the Company Copies of the Annual Report and Accounts of Centrica plc may be obtained from www centrica com

Hydrocarbon Resources Limited

Gas Reserves (un-audited)

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

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

	2007	2006
As at January	**1,016**	1,136
Revisions of previous estimates	**83**	-
Production	**(156)**	(120)
As at 30 December	**943**	1,016