Registered No: 03115179

Hydrocarbon Resources Limited

Annual Report and Financial Statements

For the year ended 31 December 2012

Hydrocarbon Resources Limited

Registered No 03115179

Directors
M P Astell
I D Bartholomew
A D Gower - Jones
P I Hedley
S Sambhi

Company Secretary
Centrica Secretaries Limited

Chartered Accountants and Statutory Auditors
PricewaterhouseCoopers LLP
32 Albyn Place
Aberdeen
AB10 1YL

Solicitors
Stronachs
34 Albyn Place
Aberdeen
AB10 1FW

Registered Office
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Hydrocarbon Resources Limited

Annual Report and Financial Statements for the year ended 31 December 2012

Contents

Hydrocarbon Resources Limited
Directors' Report for the year ended 31 December 2012

The Directors present their report and the audited financial statements of Hydrocarbon Resources Limited (the "Company") for the year ended 31 December 2012

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 main production fields (North and South Morecambe) in Morecambe Bay The Company also owns the Rhyl field which started to produce gas in April 2013 These fields represent proven and probable reserves of approximately 491 billion cubic feet of gas at 31 December 2012 (2011 526 billion cubic feet) Production of gas amounted to 74 billion cubic feet (2011 82 billion cubic feet) in the year with total condensate sales equivalent to 350,000 barrels of oil equivalent (2011 350,000 barrels of oil equivalent)

Financial results and dividends
The results of the Company are set out on page 6

The loss for the financial year ended 31 December 2012 is £69,008,000 (2011 £40,061,000 profit) No interim dividend (2011 £1,600,000,000) was paid during the year The Directors do not recommend the payment of a final dividend (2011 £nil)

Future developments
There are no plans to change the nature of activities in the foreseeable future The Rhyl field started to produce gas in April 2013 The Company is in a good position to take advantage of any opportunities which may arise in the future

Financial position
The financial position of the Company is presented in the balance sheet on page 7 Total shareholders' funds at 31 December 2012 were £1,977,144,000 (2011 £2,048,626,000)

Principal risks and uncertainties and financial risk management
The Company is a wholly owned subsidiary of Centrica plc 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 44 – 50 of the 2012 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

Principal risks and uncertainties and financial risk management (continued)

Exposure to credit risk is limited predominantly to exposures with other Centrica group companies which 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

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, other than with respect to foreign currency risk

Key performance indicators (KPIs)

The Directors of the Group use a number of KPIs to monitor progress against the Group's strategy The development and performance of the Group, which includes the Company, are discussed on pages 18 - 19 of the 2012 Annual Report and Accounts of the Group which does not form part of this report

Directors

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

M P Astell	
I D Bartholomew	(appointed 16 April 2012)
A D Gower - Jones	
P I Hedley	
S Sambhi	(appointed 20 May 2013)
J L Roger	(resigned 20 May 2013)
P de Leeuw	(resigned 16 August 2013)

Creditor payment policy

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

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

Political and charitable donations

The Company made charitable donations totalling £21,600 (2011 £3 600) during the financial year, of which £12,100 was to community projects, £8,800 medical donations and £700 of environmental donations No political donations were made in the financial year (2011 £nil)

Defined Benefit Pension Accounting – Prior Year Adjustment

The Company's employees participate in a number of the Group's defined benefit pension schemes In prior years the Company accounted for the schemes as if they were defined contribution schemes and the charge to the Profit and Loss Account was equal to the contributions payable to the schemes in the accounting period During 2012 the accounting policy has been amended because the Group has now identified a methodology for allocating the Company's share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis Therefore, the Company now accounts for the schemes as defined benefit schemes, and reports a defined benefit pension surplus / liability on its balance sheet The impact of this change in accounting policy is disclosed in note 1 to the financial statements

Hydrocarbon Resources Limited
Directors' report for the year ended 31 December 2012 (continued)

Employment policies
During 2012, the Company employed an average of 302 people (2011 274), all employed in the United Kingdom The disclosures surrounding 'Employee costs' and the 'Average number of employees during the financial year' (see note 4) relate to Group employees that work in the Hydrocarbon Resources Limited business Not all of these employees have service contracts with Hydrocarbon Resources Limited, because in some cases the contracts of service are with other Group companies The Directors believe that the disclosures given are the fairest representation of the staff costs for the business

Employees are regularly updated on performance against the Company's strategy There are regular employee surveys, action planning forums and dialogue with representatives of local employee consultative bodies and recognised trade unions to ensure a comprehensive understanding of employees' views The Group, to which Hydrocarbon Resources Limited belongs, encourages employee share ownership by operating tax authority-approved share schemes open to all eligible employees, including executive directors

The Company is committed to pursuing equality and diversity in all its employment activities and continues to support initiatives to provide employment for people from minority groups in the community, including people with a disability, carers and lone parents To the extent possible, people with a disability are offered the same employment training, career development and promotion opportunities as other employees

The Company's business principles and policies set out standards of behaviour expected of its employees in conducting business in an ethical way

Directors' and Officers' Liability
Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review The insurance does not provide cover in the event that the Director is proved to have acted fraudulently

Statement of Directors' responsibilities
The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

Disclosure of information to auditors

Each of the Directors who held office at the date of approval of this Directors' report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and they have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Independent Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office

This report was approved by the Board on 24 September 2013

For and on behalf of
Centrica Secretaries Limited
Company Secretary

Registered Number 03115179
Registered office
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Hydrocarbon Resources Limited

Independent auditors' report to the members of Hydrocarbon Resources Limited

We have audited the financial statements of Hydrocarbon Resources Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' responsibilities set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

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

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Mark Higginson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
24 September 2013

Hydrocarbon Resources Limited

Profit and Loss Account for the year ended 31 December 2012

	Notes	2012 £000	2011 £000 (restated)
Turnover	2	**275,896**	334,159
Cost of sales		**(184,040)**	(255,452)
Gross profit		**91,856**	78,707
Administrative expenses		**(31,366)**	(11,774)
Operating profit		**60,490**	66,933
Interest receivable and similar income	5	**69,146**	69,583
Interest payable and similar charges	5	**(23,810)**	(14,159)
Other finance income	21	**1,475**	901
Profit on ordinary activities before taxation	3	**107,301**	123,258
Tax on profit on ordinary activities	7	**(176,309)**	(83,197)
(Loss)/Profit for the financial year		**(69,008)**	40,061

The results have been derived wholly from continuing operations

The comparative figures for the prior year have been restated to reflect a change in accounting policy with regards pensions Further detail is provided in note 21

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

The notes on pages 8 to 23 are an integral part of these financial statements

Statement of Total Recognised Gains and Losses for the year ended 31 December 2012

	Notes	2012 £000	2011 £000 (restated)
Net (loss)/proft for the financial year		**(69,008)**	40,061
Net actuarial (losses)/gains on defined benefit pension schemes	21	**(11,368)**	6,167
Taxation on net actuarial (losses)/gains on defined benefit pension schemes		**7,048**	(3,824)
Total recognised gains and losses relating to the year		**(73,328)**	42,404
Prior year adjustment		**4,618**	
Total gains and losses recognised since last annual report		**(68,710)**	

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

Hydrocarbon Resources Limited

Balance Sheet as at 31 December 2012

	Note	**2012 £000**	2011 £000 (restated)
Fixed assets			
Tangible assets	8	**439,575**	331,787
Current assets			
Stocks	9	**903**	1,280
Debtors	10	**2,660,531**	2,447,886
Cash at bank and in hand		**3,538**	251
		2,664,972	2,449,417
Current liabilities			
Creditors amounts falling due within one year	12	**(740,563)**	(291,958)
		(740,563)	(291,958)
Net current assets		**1,924,409**	2,157,459
Total assets less current liabilities		**2,363,984**	2,489,246
Creditors amounts falling due after more than one year	11	**(117)**	(102)
Provisions for liabilities	13	**(389,522)**	(445,136)
Net assets excluding pension assets/(liabilities)		**1,974,345**	2,044,008
Defined benefit pension assets	21	**2,859**	4,618
Defined benefit pension liabilities	21	**(60)**	-
Net assets		**1,977,144**	2,048,626
Capital and reserves			
Called up share capital	15	**800,000**	800,000
Share premium account	16	**447,162**	447,162
Share option reserve	16	**2,450**	604
Profit and loss account	16	**727,532**	800,860
Total shareholders' funds	17	**1,977,144**	2,048,626

The notes on pages 8 to 23 are an integral part of these financial statements

The financial statements on pages 6 to 23 were approved by the Board of Directors on 24 September 2013 and were signed on its behalf by

P J Hedley
Director

Registered Number 03115179

Hydrocarbon Resources Limited

Notes to the financial statements for the year ended 31 December 2012

1 Principal accounting policies

a) Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention in accordance with applicable UK accounting standards and the Companies Act 2006 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

b) Pensions and other retirement benefits

The Company's employees participate in a number of the Centrica plc's, "the Group's", defined benefit pension schemes The total Group cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method Actuarial gains and losses are recognised in full in the period in which they occur The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in notes 29 and S6 to the 2012 Annual Report and Accounts of the Group

The Company's share of the total Group surplus or deficit at the end of the reporting period for each scheme is calculated in proportion to the Company's share of ordinary employer contributions in to that scheme during the year, ordinary employer contributions are determined by the pensionable pay of the Company's employees within the scheme and the cash contribution rates set by the scheme trustees Current service cost is calculated with reference to the pensionable pay of the Company's employees The Company's share of the total Group interest on scheme liabilities, expected return on scheme assets and actuarial gains or losses is calculated in proportion to ordinary employer contributions in the prior accounting period Changes in the surplus or deficit arising as a result of the changes in the Company's share of total ordinary employer contributions are also treated as actuarial gains or losses

This is a change in accounting policy from prior years when the Company accounted for the schemes as if they were defined contribution schemes and the charge to the Profit and Loss Account was equal to the contributions payable to the schemes in the accounting period The accounting policy has been amended because the Group has now identified a methodology for allocating the Company's share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis

Comparative figures have been restated accordingly The change in accounting policy increased (loss)/profit after taxation for the financial year by £2,501,000 (2011 £4,602,000 increase) and increased opening reserves by £4,618,000 (2011 £2,327,000 decrease)

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 Group Copies of the financial statements of Centrica plc are publicly available

d) Turnover

Turnover associated with exploration and production sales is recognised when title passes to the customer Turnover from the production of natural gas, oil and condensates in which the Company has an interest with other producers is recognised based on the Company's working interest and the terms of the relevant production sharing arrangements

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

Hydrocarbon Resources Limited
Notes to the financial statements for the year ended 31 December 2012 (continued)

1 Principal accounting policies – (continued)

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 and depreciation of tangible assets 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**
The financial statements of the Company are presented in sterling, which is the Company's functional currency Transactions in foreign currencies are initially recorded at either the exchange rate ruling at the date of the transaction or the rate that they have been hedged at using forward contracts (see 'Financial instruments' below) Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at the exchange rate ruling at the balance sheet date or the rate that they have been hedged at using forward contracts

g) **Capitalised cost**
Centrica uses the successful efforts method of accounting for exploration and evaluation expenditure Exploration and evaluation expenditure associated with an exploration well, including acquisition costs related to exploration and evaluation activities, are capitalised initially as intangible assets Certain expenditures such as geological and geophysical exploration costs are expensed

If the prospects are subsequently determined to be successful on completion of evaluation, the relevant expenditure, including licence acquisition costs, is transferred to property, plant and equipment and is subsequently depreciated on a unit of production basis If the prospects are subsequently determined to be unsuccessful on completion of evaluation, the associated costs are expensed in the period in which that determination is made

All field development costs are capitalised as property, plant and equipment Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project related engineering and other technical services costs Property, plant and equipment, including rights and concessions related to production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method, 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 and development is compared on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues Exploration and production assets are reviewed annually for indicators of impairment

h) **Financial instruments**
The Company has entered into forward contracts to economically hedge its foreign exchange exposure on payments made in foreign currency Changes in the derivatives' fair value are not recognised (note 20)

i) **Fixed assets**
Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment

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

Production assets are depreciated from the commencement of production in the fields concerned, using the unit of production method, 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

1 Principal accounting policies – (continued)

j) Impairment

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's net realisable value less costs to sell and value in use

k) 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 tangible fixed 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

k) 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 implicit 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

m) Stocks

Stocks are valued at the lower of cost and net realisable value on a weighted average basis

n) Taxation

Current 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 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

1 Principal accounting policies – (continued)

o) Employee share schemes

The Company accounts for share-based payments under FRS 20 "Share based payments" The Group to which the Company belongs has a number of employee share schemes, detailed in the Remuneration Report on pages 61 to 75 of the Centrica plc 2012 Annual Report and Accounts, under which it makes equity-settled share-based payments to certain employees 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 a corresponding increase in equity over the vesting period, based on Centrica plc Group's estimate of the number of awards that will vest and adjusted for the effect of non market-based vesting conditions Fair value is measured using methods appropriate to each of the different schemes as follows

Sharesave	Black-Scholes
LTIS – TSR award	A Monte Carlo simulation to predict the total shareholder return performance
All other schemes	Market value on the date of grant

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

q) Partnership accounting
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

2 Turnover

Turnover relates to the principal activities of the business and arose wholly in the United Kingdom and comprises

Turnover	2012 £000	2011 £000
HRL sales of gas and condensate	**40,893**	38,665
The Centrica Gas Production LP	**235,003**	295,494
	275,896	334,159

No segmental disclosure of turnover is required, as it is included in the 2012 Annual Report and Accounts of Centrica plc , the ultimate parent company

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

		2012 £000	2011 £000
a)	**Depreciation and amortisation.**		
	Owned assets	**56,528**	57,837
	Leased assets	**5,154**	5,464
		61,682	63,301
b)	**Operating lease rentals.**		
	Land and buildings	**210**	192
	Other	**248**	224
		458	416
c)	**Auditors' remuneration**		
	Statutory audit fee	**28**	28

Auditors' remuneration relates to fees for the audit of the UK GAAP statutory financial statements of Hydrocarbon Resources Limited and includes fees in relation to the audit of the IFRS group consolidation schedules, for the purpose of the Centrica Group audit, which also contribute to the audit of Hydrocarbon Resources Limited

4 Directors and employees

i) Directors' remuneration

a) The aggregate emoluments paid to Directors in respect of their qualifying services were £378,302 (2011 £500,767)
b) The aggregate value of Company contributions paid to a pension scheme in respect of Directors' qualifying services were £40,299 (2011 £54,211)
c) There was one Director (2011 four) to whom retirement benefits are accruing under defined benefit pension schemes
d) There were five Directors (2011 three) to whom retirement benefits are accruing under money purchase pension schemes
e) There were four Directors (2011 four) who received shares in the ultimate parent company in respect of their qualifying services under a long term incentive scheme
f) There was no Director (2011 one) who exercised share options relating to the ultimate parent company
g) The highest paid Director received emoluments of £113,555 (2011 £160,539) and the Company contributed £14,427 (2011 £23,311) to their pension scheme
h) The highest paid director is accruing retirement benefits under a money purchase pension scheme
i) In neither the current or prior year did the highest paid director receive shares in respect of qualifying services under a long-term incentive scheme
j) In neither the current or prior year did the highest paid director exercise share options relating to the ultimate parent company

ii) Employee costs

	2012 £000	2011 £000 (restated)
Wages and salaries	**18,583**	16,528
Social security costs	**2,000**	1,653
Other pension costs	**1,837**	2,728
Other pension costs - curtailment gain (note 21)	**-**	(9,177)
Long-term incentive scheme	**149**	-
Sharesave scheme	**150**	138
Share incentive plan	**131**	117
Share award scheme	**193**	206
Deferred and matching share scheme	**356**	-
	23,399	12,193

Wages and salaries relate to permanent staff members

iii) Employee numbers

The monthly average number of employees during the financial year ended 31 December 2012 was 302 (2011 274)

	2012	2011
Production	**256**	230
Administration	**46**	44
	302	274

5 Interest

i) Interest receivable and similar income:	2012 £000	2011 £000
Interest receivable from group undertakings	**60,200**	60,767
Other	**8,946**	8,816
	69,146	69,583
ii) Interest payable and similar charges.		
Notional interest arising on discounted items	**(6,617)**	(5,500)
Interest payable to group undertakings	**(17,193)**	(8,659)
	(23,810)	(14,159)

6 Dividends

	2012 £000	2011 £000
Interim dividend proposed and paid	**-**	1,600,000

No interim dividend (2011 £1,600,000,000 - £2 per share) was paid during the year No final dividend has been proposed (2011 £nil)

7 Tax on profit on ordinary activities

(a) Analysis of tax charge for the financial year

The tax charge comprises

	2012 £000	2011 £000 (restated)
Current tax:		
- UK corporation tax at 24 5% (2011 26 5%)	**20,732**	32,385
- Additional charges applicable to upstream profits at 37 5% (2011 32 8%)	**6,401**	12,692
- Adjustments in respect of prior years	**21,674**	47,889
Total current tax charge	**48,807**	92,966
Deferred tax:		
- Effect of decrease to decommissioning relief	**20,054**	-
- Deferred petroleum revenue tax (PRT) relief	**50,568**	(6,885)
- Origination and reversal of timing differences	**56,290**	(2,123)
- Adjustments in respect of prior years	**590**	(761)
Total deferred tax (note 14)	**127,502**	(9,769)
Tax on profit on ordinary activities	**176,309**	83,197

Hydrocarbon Resources Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

7 Tax on profit on ordinary activities (continued)

The tax assessed for the period is higher (2011 lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2012 of 24 5% (2011) 26 5%) The differences are explained below

	2012 £000	2011 £000 (restated)
Profit on ordinary activities before taxation	**107,301**	123,258
Tax on profit on ordinary activities at standard UK corporation tax rate of 24 5% (2011 26 5%)	**26,289**	32,663
Effects of		
Net income not taxable	**(135)**	(114)
Utilisation of timing differences	**(5,686)**	(5,836)
Depreciation in excess of capital allowances	**(24,078)**	8,640
Movement on deferred PRT provision	**(12,791)**	(5,529)
Additional charges applicable to upstream profits	**6,401**	12,692
Group relief for nil consideration	**33,293**	-
UK UK transfer pricing adjustments	**3,840**	2,561
Adjustments in respect of prior years	**21,674**	47,889
Current tax charge/(credit) for the year	**48,807**	92,966

A number of further changes to the UK corporation tax system were announced in the March 2012 and 2013 UK Budget Statements Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Act 2012 Further reductions to the main rate were enacted in the Finance Act 2013 to reduce the rate to 20% by April 2015 These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements There was no change to the ring fence corporation tax rate of 30% or the supplementary charge rate of 32% The reduction of 12% to the rate of relief available from decommissioning expenditure against the supplementary charge effective from 21 March 2012 was enacted under Finance Act 2012 Except for the reduction in the main rate of corporation tax to 23% from 1 April 2013, and the reduction in the rate of relief for decommissioning expenditure, the changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements The impact of the proposed further reductions on the deferred tax balances is not expected to have a material impact

8 Tangible assets

	Total £000
Cost	
As at 1 January 2012	3,132,301
Additions	142,226
Revision of abandonment estimate (note 13)	27,244
As at 31 December 2012	**3,301,771**
Accumulated depreciation	
As at 1 January 2012	2,800,514
Charge for the year	61,682
As at 31 December 2012	**2,862,196**
Net book value as at 31 December 2012	**439,575**
Net book value as at 31 December 2011	331,787

The net book value of tangible fixed assets held under finance leases, as at 31 December 2012, was £29,620,000 (2011 £34,774,000) 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 2012 were £131,130,000 (2011 £120,736,000)

9 Stocks

	2012 £000	2011 £000
Operational spares and consumables	**903**	1,280

10 Debtors

	2012 £000	2011 £000
Amounts receivable within one year		
Amounts owed by group undertakings	**2,652,093**	2,364,113
Deferred taxation	**-**	75,722
Other debtors	**8,438**	8,051
	2,660,531	2,447,886

Amounts owed by group undertakings are due within one year, are unsecured and interest free, except for £1,350,000,000 (2011 £1,350,000,000) owed by Centrica Holdings Limited, where interest is payable on the principal at LIBOR plus 20 basis points (2011 LIBOR plus 20 basis points) and settled quarterly

11 Borrowings

	2012 £000	2011 £000
Amount falling due within one year:		
Amounts payable under finance leases	**135**	90
Amount falling due after more than one year:		
Amounts payable under finance leases	**117**	102
Obligations under finance leases were repayable as follows:		
Less than one year	**135**	90
Between one and two years	**28**	21
Between two and five years	**70**	53
After more than five years	**19**	28
	252	192

12 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Borrowings (note 11)	**135**	90
Amounts owed to group undertakings	**515,288**	149,383
Taxation and social security	**112,408**	111,197
Accruals and deferred income	**65,033**	31,288
Deferred taxation	**47,699**	-
	740,563	291,958

The amounts payable to Group undertakings include £402,707,000 (2011 £133,411,000) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds The quarterly rates ranged between 2 89% and 3 75% per annum during 2012 (2011 1 71% and 2 71%) The other amounts payable to Group undertakings are interest-free All amounts payable to Group undertakings are unsecured and repayable on demand

13 Provisions for liabilities

	Decommissioning costs £000	Deferred PRT £000	Other provisions £000	Total £000
As at 1 January 2012	300,785	144,311	40	**445,136**
Revisions (note 8)	27,244	-	-	**27,244**
Profit and loss charge/(credit)	6,617	(88,607)	(868)	**(82,858)**
As at 31 December 2012	**334,646**	**55,704**	**(828)**	**389,522**

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 2015 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/(credit) includes £6,617,000 (2011 £5,500,000) of notional interest

Deferred PRT (petroleum revenue tax)

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

Hydrocarbon Resources Limited
Notes to the financial statements for the year ended 31 December 2012 (continued)

14 Deferred tax

	As at 1 January 2012 (restated) £000	Profit and loss charge £000	Equity credit £000	As at December 2012 £000
Deferred corporation tax				
- accelerated capital allowances	117,355	60,866	-	178,221
- deferred PRT	(89,473)	50,568	-	(38,905)
- decommissioning	(111,630)	9,872	-	(101,758)
- other timing differences	8,026	2,115	-	10,141
Deferred tax provision	**(75,722)**	**123,421**	**-**	**47,699**
Deferred tax liability on pension asset	7,534	4,081	(7,048)	4,567
Provision at end of year including deferred tax	**(68,188)**	**127,502**	**(7,048)**	**52,266**

Deferred corporation tax liability at 62% (2011 62%) is analysed as follows

	Amounts provided		Amounts unprovided	
	2012	2011	**2012**	2011
	£000	£000 (restated)	**£000**	£000
- accelerated capital allowances	**178,221**	117,355	-	-
- deferred PRT	**(38,905)**	(89,473)	-	-
- retirement benefit obligations	**4,567**	7,534	-	-
- other timing differences	**(91,617)**	(103,604)	**(471)**	(471)
	52,266	(68,188)	**(471)**	(471)

15 Called up share capital

	2012 £000	2011 £000
Allotted, called up and fully paid		
800 000,001 (2011 800,000,001) ordinary shares of £1 each	**800,000**	800,000

Hydrocarbon Resources Limited
Notes to the financial statements for the year ended 31 December 2012 (continued)

16 Reserves

	Share premium account £000	Share option reserve £000	Profit and loss account (restated) £000	2012 Total £000	2011 (restated) (i) £000
As at 1 January as previously reported	447,162	604	796,242	1,244,008	2,808,117
Prior year adjustment	-	-	4,618	4,618	(2,327)
As at 1 January	447,162	604	800,860	1,248,626	2,805,790
Loss for the financial year	-	-	(69,008)	(69,008)	40,061
Employee share option schemes	-	1,846	-	1,846	432
Actuarial losses net of taxation	-	-	(4,320)	(4,320)	2,343
Dividends paid	-	-	-	-	(1,600,000)
As at 31 December	**447,162**	**2,450**	**727,532**	**1,177,144**	1,248,626

(i) Restated for the change in accounting policy in respect of defined benefit pensions which reduced opening reserves as at 1 January 2011 by £2,327 000, increased profit after tax for the year ended 31 December 2011 by £4 602 000 and increased actuarial gains net of taxation for the year ended 31 December 2011 by £2,343,000

17 Reconciliation of movements in shareholders' funds

	2012 £000	2011 (restated) (i) £000
As at 1 January as previously reported	**2,044,008**	3,608,117
Prior year adjustment	**4,618**	(2,327)
As at 1 January (i)	**2,048,626**	3,605,790
(Loss)/profit for the financial year (i)	**(69,008)**	40,061
Dividends	-	(1,600,000)
Employee share option schemes	**1,846**	432
Actuarial (losses) / gains net of taxation	**(4,320)**	2,343
As at 31 December	**1,977,144**	2,048,626

(i) Restated for the change in accounting policy in respect of defined benefit pensions which reduced opening reserves as at 1 January 2011 by £2 327 000 increased profit after tax for the year ended 31 December 2011 by £4,602,000 and increased actuarial gains net of taxation for the year ended 31 December 2011 by £2 343 000

18 Share based payments

Summary of principal share-based payment plans

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders The Company participates in seven employee share schemes which gave rise to a charge of £979,000 (2011 £461,000) which represents 5% (2011 4%) of employee costs Over 70% of this share-based payment charge arose from the Share Award Scheme, which is detailed further below

Share Award Scheme (SAS)

Under the SAS, allocations of shares in Centrica plc are made to selected employees at middle management levels, based on recommendation by the Chief Executive and the Group Human Resources Director There is no contractual eligibility for SAS and each year's award is made independently from previous awards Allocations are subject to no performance conditions and vest unconditionally subject to continued employment within the Group (except where permitted by the rules of the scheme) in two stages – half of the award vesting after two years, the other half vesting after three years On vesting, additional shares are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the vesting period The fair value is therefore considered to be the market value at date of grant

19 Financial commitments and contingent liabilities

a) Capital expenditure

Contracted future capital expenditure, as at 31 December 2012, was £23,391,664 (as at 31 December 2011 £39,053,000)

b) Operating lease commitments

As at 31 December 2012 commitments for the following financial year under operating leases were as follows

	Land and buildings		Other	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Expiring in two to five years	**210**	192	**248**	224

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 Energy & Climate Change abandonment notice in respect of the Morecambe gas fields has been revoked

d) Guarantee

Centrica plc has a bilateral credit facility of up to £1,950,000,000 (2011 £2,100,000,000) and US$1,425,000,000 (2011 US$1,575,000,000) with various financial institutions The Group also has letters of credit of C$575,000,000 (2011 C$450,000,000) available The Group also has a loan of NZ$89,760,000 (2011 NZ$149,600,000) in place The Company was one of the guarantors of these facilities, 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 agreements

The Company has provided credit guarantees totalling £1,000,000 (2011 £1,000,000) as decommissioning security for assets in the East Irish Sea

e) Contingent liabilities

There are no contingent liabilities which require disclosure

20 Financial Instruments

In accordance with Statutory Instrument 2008/410 of the Companies Act 2006, as the Company has not implemented FRS 26 Financial Instruments recognition and measurement, the fair values of the Company's financial instruments are analysed below

	2012	2011
	£000	£000
Derivative financial instruments held for trading		
Foreign exchange derivatives - assets	-	300

Hydrocarbon Resources Limited
Notes to the financial statements for the year ended 31 December 2012 (continued)

21 Pensions

The accounting policy in respect of defined benefit pension schemes has been changed in the year (see note 1) Comparatives have been restated accordingly

a) Summary of main schemes

The Company's employees participate in the following Group defined benefit pension schemes Centrica Pension Plan (CPP) and Centrica Pension Scheme (CPS) Its employees also participate in the defined contribution section of the Centrica Pension Scheme Information on these schemes is provided in notes 29 and S6 to the 2012 Annual Report and Accounts of the Group

Together with the Centrica Engineers Pension Scheme (CEPS), CPP and CPS form the majority of the Group's defined benefit obligation and are referred to below and in the 2012 Annual Report and Accounts of the Group as the 'Registered Pension Schemes'

b) Curtailment gains

During 2011, the Group announced changes to the terms of the final salary sections of the CEPS and the CPP Further details are provided in Note 29 to the 2012 Annual Report and Accounts of the Group The total Group gains of £333 million have been apportioned to the Company in proportion to ordinary employer contributions in the prior accounting period This results in a gain of £9,177,000 in the Company's restated Profit and Loss Account

c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes are provided in note 29 to the 2012 Annual Report and Accounts of the Group

d) Movement in the year

	2012		2011	
	Pension liabilities £000	**Pension assets £000**	Pension liabilities £000 (restated)	Pension assets £000 (restated)
1 January	**(122,503)**	**134,655**	(148,121)	143,465
Items included in the Profit and Loss Account				
Current service cost	**(1,837)**	**-**	(2,728)	-
Loss on curtailment	**-**	**-**	(145)	-
Gain on curtailment	**-**	**-**	9,177	-
Interest on scheme liabilities	**(6,590)**	**-**	(8,481)	-
Expected return on scheme assets	**-**	**8,065**	-	9,382
Other movements				
Actuarial (loss)/gain	**(17,013)**	**5,645**	24,677	(18,510)
Employer contributions	**-**	**6,944**	-	3,436
Plan participants' contributions	**(635)**	**635**	(699)	699
Benefits paid from schemes	**4,834**	**(4,834)**	3,817	(3,817)
31 December	**(143,744)**	**151,110**	(122,503)	134,655

	2012 £000	2011 £000 (restated)
Net pension surplus	**7,366**	12,152
Related deferred tax liability	**(4,567)**	(7,534)
Net pension surplus after deferred tax	**2,799**	4,618
Defined benefit pension assets	**2,859**	4,618
Defined benefit pension liabilities	**(60)**	-
Net surplus recognised in the Company Balance Sheet	**2,799**	4,618

21 Pensions (continued)

e) Analysis of the actuarial gains/(losses) recognied in the Statement of Total Recognised Gains and Losses

	2012 £000	2011 £000 (restated)
Actuarial gain/(loss) (actual return less expected return on pension scheme assets)	**5,645**	(18,510)
Experience gain arising on the scheme liabilities	**877**	1,271
Changes in assumptions underlying the present value of the schemes' liabilities	**(17,890)**	23,406
Actuarial (loss)/gain to be recognised in the Statement of Total Recognised Gains and Losses, before adjustment for taxation	**(11,368)**	6,167
Cumulative actuarial gains recognised in reserves at 1 January, before adjustment for taxation	**6,167**	-
Cumulative actuarial (losses)/gains recognised in reserves at 31 December, before adjustment for taxation	**(5,201)**	6,167

f) Pension scheme contributions

Note 29 to the 2012 Annual Report and Accounts of the Group provides details of the triennial review carried out at 31 March 2012 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangement set up on 31 December 2012 During the year the Group made a £37 million deficit payment and a contribution of £84 million via the asset-backed contribution arrangement of which the Company's share was £1,179,000 and £3,343,000 respectively Under FRS 17, Retirement Benefits, the Company's contribution and trustee interest in the Scottish Limited Partnership are recognised as scheme assets

The Company estimates that it will pay £2,391,000 of employer contributions during 2013 at an average rate of 22% of pensionable pay

g) Pension scheme assets

	2012 £m	2011 £m (restated)
UK equities	**322**	400
Non-UK equities	**1,522**	1,311
Fixed-interest bonds	**1,411**	1,369
Inflation-linked assets	**997**	1,040
High-yield debt	**324**	292
Diversified asset funds	**246**	-
Property	**204**	163
Cash pending investment	**12**	36
Asset backed contribution assets	**84**	-
Group pension scheme assets (i)	**5,122**	4,611

	2012	2011 (restated)
Company share of the above (£m)	**151**	135
Expected long-term rate of return on assets per annum	**5.6%**	6 0%

(i) Total pension schemes assets for the UK pension scheme

The basis for determining the overall expected rate of return on assets is explained in note 29 to the 2012 Annual Report and Accounts of the Group

Hydrocarbon Resources Limited
Notes to the financial statements for the year ended 31 December 2012 (continued)

21 Pensions (continued)

h) Histories

	2012 £000	2011 £000 (restated)
History of surplus		
Plan assets	**151,110**	134,655
Defined benefit obligations	**(143,744)**	(122,503)
Pension surplus	**7,366**	12,152
Difference between the expected and actual return on scheme assets	**5,645**	(18,510)
Experience losses on scheme liabilities	**877**	1,271

22 Ultimate parent undertaking

The Company's immediate parent undertaking is British Gas Trading Limited, a company registered in England and Wales The ultimate parent undertaking and controlling party is Centrica plc, a company registered in England and Wales, which is the largest and smallest group to consolidate the financial statements of Hydrocarbon Resources Limited Copies of the financial statements of Centrica plc are available from www centrica com

Hydrocarbon Resources Limited

GAS & LIQUID RESERVES (unaudited)

The Company's estimates of reserves are reviewed as part of the half-year and full-year reporting process and updated accordingly A number of factors affect the volumes reserves, including the available reservoir data, commodity prices and future costs Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available

The Group discloses proven and probable gas and liquids reserves, representing management's estimate of future hydrocarbon recovery Reserves for fields operated by the Company are estimated by in-house technical teams composed of geoscientists and reservoir engineers Reserves for non-operated fields are estimated by the operator, but are subject to internal review and challenge Internal guidelines for reserve recognition have been revised following the acquisition of Venture Production Limited in 2009

As part of the internal control process related to reserves estimation, an audit of the reserves, including the application of the reserves definitions, is undertaken by an independent technical auditor Reserves are estimated in accordance with a formal policy and procedure standard

The Company's principal fields in the UK are South Morecambe, North Morecambe, Rhyl and a 86 8% working interest in the Bains field

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

	2012	2011
As at 1 January	**526**	592
Extensions, discoveries and other additions	**39**	16
Production	**(74)**	(82)
As at 31 December	**491**	526

Estimated net proven and probable reserves of liquids (million barrels)

	2012	2011
As at 1 January	**2 2**	1 7
Revisions of previous estimates	**-**	0 9
Extensions, discoveries and other additions	**0.4**	-
Production	**(0.4)**	(0 4)
As at 31 December	**2.2**	2 2

Liquids reserves include condensate, propane butane and oil