REGISTERED NO: 3115179

HYDROCARBON RESOURCES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2009

Hydrocarbon Resources Limited
Directors' report for the year ended 31 December 2009

The Directors present their report and the audited financial statements of Hydrocarbon Resources Limited (the "Company") for the year ended 31 December 2009

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 688 billion cubic feet at 31 December 2009 (2008 772 billion cubic feet) Production of gas amounted to 84 billion cubic feet (2008 171 billion cubic feet) in the period with total condensate sales equivalent to 300,000 barrels of oil equivalent (2008 450,000 barrels of oil equivalent)

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

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

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

The profit on ordinary activities after taxation for the year ended 31 December 2009 is £73,088,000 (2008 £566,469,000) The reduction in profit in the current year is due to making the value maximising decision to shut down production at South Morecambe during periods of low gas prices which resulted in a 51% reduction in Morecambe volumes No dividends were paid during the year and the Directors do not recommend the payment of a final dividend (2008 nil)

Financial Position
The financial position of the Company is presented in the balance sheet on page 7 Shareholders' funds at 31 December 2009 were £3,399,091,000 (2008 £3,325,505,000)

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 29-34 of the 2009 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 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

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, 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 8-9 of the 2009 Annual Report and Accounts of the Group which does not form part of this report

Directors

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

P K Cochrane	
A D Le Poidevin	
G S Collinson	(appointed 13 February 2009)
N M Maddock	(appointed 8 February 2010)
J L Roger	(appointed 8 February 2010)
V M Hanafin	(resigned 8 February 2010)
J N Shears	(resigned 8 February 2010)

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

The number of days' purchases outstanding as at 31 December 2009 was 40 days (2008 13 days)

Political and charitable donations

The Company made charitable donations totalling £1,025 during the period (2008 £12,981) No political donations were made in the year (2008 £nil)

Hydrocarbon Resources Limited
Directors' report for the year ended 31 December 2009-continued

Employment policies

During 2009, the Company employed an average of 289 people, all employed in the United Kingdom (2008 285) The disclosures surrounding 'Employee Costs' and the 'Average number of employees during the 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 period under review The insurance does not provide cover in the event that the Director is proved to have acted fraudulently

Post balance sheet events

Refer to note 21

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 elected to prepare 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

Hydrocarbon Resources Limited
Directors' report for the year ended 31 December 2009-continued

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 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

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 29 September 2010

For and on behalf of
Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales No 3115179
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 year ended 31 December 2009 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 Directors' Responsibilities Statement 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 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

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 2009 and of its profit 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

Charles van den Arend (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 September 2010

Hydrocarbon Resources Limited

Profit and Loss Account for the year ended 31 December 2009

	Notes	**Year ended 31 December 2009 £000**	Year ended 31 December 2008 £000
Turnover	2	**275,177**	1,018,725
Cost of sales		**(205,342)**	(521,539)
Operating profit		**69,835**	497,186
Interest receivable and similar income	5	**32,928**	122,694
Interest payable and similar charges	5	**(5,791)**	(5,561)
Profit on ordinary activities before taxation	3	**96,972**	614,319
Tax on profit on ordinary activities	6	**(23,884)**	(47,850)
Profit for the financial year		**73,088**	566,469

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 16

The notes on pages 8 to 23 form part of these financial statements

Hydrocarbon Resources Limited
Balance Sheet as at 31 December 2009

	Notes	As at 31 December 2009 £000	As at 31 December 2008 £000
Fixed assets			
Tangible fixed assets	7	**393,104**	420,059
		393,104	420,059
Current assets			
Stocks	8	**19,211**	17,897
Debtors (amount falling due within one year)	9	**4,062,115**	3,748,780
Cash at bank and in hand		**132**	234
		4,081,458	3,766,911
Creditors (amounts falling due within one year)			
Borrowings	10	**(30)**	(30)
Creditors	11	**(610,223)**	(344,048)
		(610,253)	(344,078)
Net current assets		**3,471,205**	3,422,833
Total assets less current liabilities		**3,864,309**	3,842,892
Creditors (amounts falling due after one year)			
Borrowings	10	**(162)**	(192)
Creditors	11	**(95,110)**	(143,522)
		(95,272)	(143,714)
Provisions for liabilities and charges	12,13	**(369,946)**	(373,673)
Net assets		**3,399,091**	3,325,505
Capital and reserves - equity interests			
Called up share capital	14	**800,000**	800,000
Share premium account	15	**447,162**	447,162
Share option reserve	15	**1,554**	2,289
Profit and loss account	15	**2,150,375**	2,076,054
Equity shareholder funds	16	**3,399,091**	3,325,505

The financial statements on pages 6 to 23 were approved and authorised for issue by the Board of Directors on 29 September 2010 and were signed on its behalf by

Nick Maddock
Director

The notes on pages 8 to 23 form part of these financial statements

Hydrocarbon Resources Limited
Notes to the financial statements for the year ended 31 December 2009

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 Group's ('Group's') defined benefit pension schemes The Company is unable to identify its share of the underlying assets and liabilities in these schemes 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 Group

d) Turnover

Revenue associated with exploration and production sales is recognised when title passes to the customer Revenue 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

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

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 at the exchange rate ruling at the balance sheet date or the rate that they have been hedged at using forward contracts

g) 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 19)

1 Principal accounting policies - continued

h) Emissions Trading Scheme

Granted CO2 emissions allowances received in a period are initially recognised at nominal value (nil value) Purchased CO2 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 and as a result no amortisation is recorded The liability is measured at the cost purchased allowances up to the level of purchased allowances held and then at the market price of allowances ruling at the balance sheet date

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

Other tangible fixed 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

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

j) 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

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

l) Stocks

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

m) 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

1 Principal accounting policies - continued

m) 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

n) 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 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 detailed in the Directors' Report – Corporate Responsibility on pages 21-26, the Remuneration Report on pages 45-59 and in note 35 of the Centrica plc Annual Report and Accounts 2009

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 EPS awards after 2005	Market value on date of grant
LTIS TSR awards after 2005	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

o) Commercial reserves

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

p) 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 accounting policies - continued

q) Deferred Income – The Centrica Gas Production LP

Deferred income represents the Company's share of cash invested by a limited partner in The Centrica Gas Production LP in exchange for a limited partnership entitling it to profits from the South Morecambe gas field for the next three years The Company, as General Partner to the partnership, is under no obligation to return the cash to the limited partner The income is deferred and is recognised within turnover on a unit of production basis based on South Morecambe production in the period compared to total production over the seven year period to which it relates

2 Segmental analysis

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

Turnover	**Year ended 31 December 2009 £000**	Year ended 31 December 2008 £000
HRL sales of gas and condensate	**26,724**	285,870
The Centrica Gas Production LP	**248,453**	732,855
	275,177	1,018,725

Turnover – The Centrica Gas Production LP represents the Company's share of turnover arising within The Centrica Gas Production LP This includes £62,377,000 (2008 £135,009,000) relating to the release of deferred income as described in more detail in note 11

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
a) Depreciation and amortisation:		
Owned assets	**47,930**	83,759
Leased assets	**4,816**	8,507
	52,746	92,266
b) Operating lease rentals:		
Land and buildings	**353**	335
Other operating leases	**324**	224
	677	559
c) Auditors' remuneration		
Statutory audit fee	12	12

Auditors' remuneration relates to fees for the audit of the UK GAAP statutory accounts 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

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

Refer to page 3 for further discussion

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Wages and salaries	15,803	15,380
Social security costs	1,587	1,483
Other pension and retirement benefit costs	13,835	5,378
Long-term Incentive Scheme	74	82
Sharesave Scheme	204	146
Share Incentive Plan	99	100
Share Award Scheme	121	107
	31,723	22,676

Wages and salaries relate to permanent staff members

iii) Employee numbers

The average number of employees during the period ended 31 December 2009 was 289 (year ended 31 December 2008 285) Refer to page 3 for further discussion

	Year ended 31 December 2009	Year ended 31 December 2008
Production	248	253
Administration	41	32
	289	285

5 Interest

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
i) Interest receivable and similar income:		
Interest received from group undertakings	33,888	122,694
Other	(960)	-
	32,928	122,694
ii) Interest payable and similar charges:		
Other interest payable	-	578
Notional interest arising on discounted items	5,791	4,983
	5,791	5,561

6 Tax on profit on ordinary activities

(a) Analysis of tax charge in the year
The tax charge comprises

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Current tax:		
- UK corporation tax at 28% (2008 28 5%)	**17,397**	82,151
- Additional charges applicable to upstream profits at 22% (2008 21 5%)	**4,684**	33,927
- Adjustments in respect of prior years	**7,936**	1,564
Total current tax	**30,017**	117,642
Deferred tax:		
- Deferred petroleum revenue (PRT) relief	**3,727**	24,137
- Origination and reversal of timing differences	**(9,702)**	(92,210)
- Adjustments in respect of prior periods	**(158)**	(1,719)
Taxation charge	**23,884**	47,850

(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 2009 £000	Year ended 31 December 2008 £000
Profit on ordinary activities before tax	**96,972**	614,319
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2008 28 5%)	**27,152**	175,081
Effects of		
Net income not taxable	**(17,993)**	(106,009)
Utilisation of timing differences	**2,847**	6,437
Depreciation in excess of capital allowances	**2,607**	15,294
Movement on deferred PRT provision	**(2,087)**	(14,482)
Additional charges applicable to upstream profits	**4,684**	33,927
Group relief for nil consideration	**(2,722)**	-
UK- UK transfer pricing adjustments	**7,593**	5,830
Adjustments to tax charge in respect of previous periods	**7,936**	1,564
Current tax charge for the year	**30,017**	117,642

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008
The rate of tax applied to upstream activities remained unchanged at an effective rate of 50% (2008 50%)

6 Tax on profit on ordinary activities – continued

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010 reduced the main rate of corporation tax from 28% to 27% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements The impact of these changes on the deferred tax balances is not expected to be material since no changes have been proposed to the rate of tax applying to upstream activities

7 Tangible fixed assets

	£000
Cost	
As at 31 December 2008	3,012,452
Additions	25,114
Revisions of abandonment asset	676
As at 31 December 2009	**3,038,242**
Depreciation and amortisation	
As at 31 December 2008	2,592,392
Charge for the year	52,746
As at 31 December 2009	**2,645,138**
Net book value as at 31 December 2009	**393,104**
Net book value as at 31 December 2008	420,059

The net book value of tangible fixed assets held under finance leases, as at 31 December 2009, was £49,776,122 (2008 £54,592,122) 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 2009 were £117,819,425 (2008 £129,611,631)

8 Stocks

	As at 31 December 2009 £000	As at 31 December 2008 £000
Operational spares and consumables	**19,211**	17,897

9 Debtors

	As at 31 December 2009 £000	As at 31 December 2008 £000
Amounts receivable within one year:		
Amounts owed by group undertakings	**3,803,588**	3,562,316
Taxation and social security	**247,576**	182,905
Deferred taxation	**3,393**	-
Other debtors	**7,558**	3,559
	4,062,115	3,748,780

Amounts owed by group undertakings – These amounts are due within one year, are unsecured and interest free, except for £1,350,000,000 (2008 £1,350,000,000) owed by Centrica Holdings Limited, where interest is payable on the principal at LIBOR plus 20 basis points, and settled quarterly

10 Borrowings

	As at 31 December 2009 £000	As at 31 December 2008 £000
Amount fallıng due within one year		
Amounts payable under finance leases	**30**	30
Amounts falling due after more than one year:		
Amounts payable under finance leases	**162**	192
Obligations under finance leases were repayable as follows:		
Less than one year	30	30
Between one and two years	30	30
Between two and five years	90	90
After more than five years	42	72
	192	222

11 Creditors

	As at 31 December 2009 £000	As at 31 December 2008 £000
Amount falling due within one year		
Trade creditors	**2,995**	4,183
Amounts owed to group undertakings	**466,844**	182,398
Taxation and social security	**215**	11,566
Accruals and deferred income	**40,965**	32,732
Deferred income – The Centrica Gas Production LP	**99,204**	113,169
	610,223	344,048
Amounts falling due after more than one year:		
Deferred income – The Centrica Gas Production LP	**95,110**	143,522

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 £62,377,000 (2008 £135,009,000)

Amounts owed to group undertakings - These amounts are due within one year, are unsecured and interest free

12 Provisions for liabilities and charges

	Decommissioning costs £000	Deferred PRT £000	Provision & Deferred CT £000	Other provisions £000	Total £000
As at 1 January 2009	262,231	108,693	2,739	10	373,673
Transferred from debtors	-	-	(2,739)		(2,739)
Revisions	676	-	-	-	676
Profit and loss charge/(credit)	5,791	(7,455)	-	-	(1,664)
As at 31 December 2009	**268,698**	**101,238**	-	**10**	**369,946**

Decommissioning costs
Provision has been made for the estimated net present cost of decommissioning gas production facilities at the end of their producing lives The estimate has been based on proved and probable reserves, price levels and technology at the balance sheet date The timing of decommissioning payments are dependent on the lives of a number of fields but are anticipated to occur between 2010 and 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 £5,791,000 (year ended 31 December 2008 - £4,983,000) of notional interest

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

13 Deferred corporation tax

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

	As at 1 January 2009 £000	Profit and loss charge/(credit) £000	**As at 31 December 2009 £000**
Deferred corporation tax			
-accelerated capital allowances	127,542	(4,713)	**122,829**
-deferred PRT	(54,346)	3,728	**(50,618)**
-other timing differences	(70,457)	(5,147)	**(75,604)**
	2,739	**(6,132)**	**(3,393)**

Deferred corporation tax provision/(asset) at 50% (as at 31 December 2008 50%) is analysed as follows

	Amounts provided		**Potential amounts unprovided**	
	2009 £000	2008 £000	**2009 £000**	2008 £000
-accelerated capital allowances	**122,829**	127,542		-
-deferred PRT	**(50,618)**	(54,346)		-
-other timing differences	**(75,604)**	(70,457)	**(379)**	(379)
	(3,393)	2,739	**(379)**	(379)

Changes to UK tax law substantively enacted in July 2008 relating to relief for upstream losses resulted in a re-appraisal of the company's unrecognised deferred tax assets which led to full recognition of substantially all of the previously unrecognised amount

14 Called up share capital

	As at 31 December 2009 £000	As at 31 December 2008 £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

15 Reserves

	Share premium account £000	Share option reserve £000	Profit and loss account £000	Total £000
1 January 2009	447,162	2,289	2,076,054	2,525,505
Profit for the year	-	-	73,088	73,088
Employee share option schemes	-	(735)	1,233	498
31 December 2009	**447,162**	**1,554**	**2,150,375**	**2,599,091**

16 Reconciliation of movements in equity shareholder funds

	2009 £000	2008 £000
1 January	**3,325,505**	2,758,288
Profit for the year	**73,088**	566,469
Employee share option schemes	**498**	748
31 December	**3,399,091**	3,325,505

17 Share based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders Centrica operates nine main employee share schemes the Deferred and Matching Share Scheme (DMSS), the Executive Share Option Scheme (ESOS), the Long Term Incentive Scheme (LTIS), Sharesave, the Share Award Scheme (SAS), the Restricted Share Scheme (RSS), the Share Incentive Plan (SIP), Direct Energy Employee Share Purchase Plan (ESPP) and the Deferred Bonus Plan 2009 (DBP)

On 15 December 2008 Centrica plc raised proceeds of £2,164 million, net of issue costs of £65 million, through a Rights Issue as explained in notes 30 and 32 to the Centrica plc annual report and accounts 2008 The number of shares allocated to employees under the Group's share schemes has been adjusted to reflect the bonus element of the Rights Issue The terms of the Group's employee share schemes were adjusted such that participants of the various plans were no better or worse off as a result of the Rights Issue Consequently, no additional expense was or will be recognised as a result of changes to the Group's employee share schemes Details of the adjustments made to the terms of the Group's employee share schemes, as a result of the Rights Issue, are provided in sections (b) and (c) below

17 Share based payments – continued

a) Summary of share-based payment plans and movements in the number of shares and options outstanding:

LTIS

Under the LTIS, allocations of shares in Centrica plc are generally reserved for employees at senior management level The number of shares to be released to participants is calculated subject to the Company's total shareholder return (TSR) and EPS growth during the three years following the grant date Shares are released to participants immediately following the end of the period in which performance is assessed, however release of shares is subject to continued employment within the Group at the date of release (except where permitted by the rules of the scheme) The vesting of half of each award is made on the basis of TSR performance For this half of the award, the calculation of TSR performance is compared with the TSR of other shares in the FTSE 100 Allocations are valued using a Monte Carlo simulation model The number of shares released is determined on a straight-line basis between 25% and 100% if Centrica's TSR is ranked between 50th and 20th The vesting of the remaining half of awards is dependent on EPS growth This is considered a non-market condition under IFRS 2 Additional shares for both TSR and EPS portions are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the performance period The fair value of the awards is therefore considered to be the market value at the grant date The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest Details of the fair values of awards granted and related assumptions are included in section (c) below A reconciliation of movements in allocations is as follows

	2009 Number (i)	2008 Number (i)
Outstanding at start of period	**132,049**	76,480
Granted	**64,752**	55,591
Exercised	**(37,107)**	(29,513)
Forfeited – performance related	**(3,639)**	(21,803)
Forfeited – non performance related	-	-
Transfer to/from other group companies	-	51,294
Outstanding at end of period	**156,055**	132,049
Vested at end of period	-	20,372

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights issue Details of the Rights Issue are provided above

For shares released during the period, the weighted average share price adjusted to reflect the bonus element of the Rights Issue was £2 30 (2008 2 72)

Sharesave

Under Sharesave, the Board may grant options over shares in Centrica plc to UK-based employees of the Group To date, the Board has approved the grant of options 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 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 Details of the fair values of awards granted and related assumptions are included in section (b) below A reconciliation of movements in allocations is as follows

17 Share based payments - continued

	2009		2008	
	Number (i)	**Weighted average exercise price (i)**	Number (i)	Weighted average exercise price (i)
Outstanding at start of period	**1,049,502**	**£2.14**	**1,856,530**	**£1.58**
Adjustments to allocations	**-**	**-**	**-**	**-**
Granted	**633,922**	**£1.94**	**439,153**	**£2.27**
Exercised	**(326,688)**	**£1.98**	**(1,190,903)**	**£1.01**
Forfeited	**(211,313)**	**£2.28**	**(68,701)**	**£1.72**
Expired	**(8,247)**	**£1.67**	**-**	**-**
Transfer to/from other Group Companies	**(862)**	**-**	**13,423**	**£1.58**
Outstanding at end of period	**1,136,314**	**£2.05**	**1,049,502**	**£2 14**
Exercisable at end of period	**16,655**	**£1.95**	**2,043**	**£1.67**

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights issue Details of the Rights Issue are provided above

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

2009				2008			
Range of exercise prices (i)	**Weighted average exercise price (i)**	**Number of shares (i)**	**Average remaining contractual life Years**	Range of exercise prices (i)	Weighted average exercise price (i)	Number of shares (i)	Average remaining contractual life Years
£0.90 – £0.99	**-**	**Nil**	**-**	£0 90 – £0 99	-	Nil	-
£1.50 – £1.59	**-**	**Nil**	**-**	£1 50 – £1 59	-	Nil	-
£1.60 – £1.69	**£1.67**	**91,926**	**0.2**	£1 60 – £1 69	£1 65	194,021	0 7
£1.70 – £1.79	**-**	**Nil**	**-**	£1 70 – £1 79	-	Nil	-
£1 90 – £1 99	**£1.94**	**627,304**	**3.4**	£1 90 – £1 99	-	Nil	-
£2.10 – £2 19	**£2.12**	**86,214**	**1 2**	£2 10 – £2 19	£2 12	327,907	2 3
£2 20 – £2 29	**£2.27**	**250,386**	**2.5**	£2 20 - £2 29	£2 27	424,839	4 3
£2.50 – £2.59	**£2.59**	**80,484**	**1.2**	£2 50 – £2 59	£2 59	102,735	3 3
	£2.05	**1,136,314**	**2.6**		£2 14	1,049,502	2 9

(i) Exercise prices and the number of shares in each range have been adjusted to reflect the bonus element of the Rights Issue Details of the Rights Issue are provided above

For options exercised during the period, the weighted average share price was £2 36 (2008 £ 2 64) The 2008 share price was adjusted to reflect the bonus element of the Rights Issue

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 with 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 Details of the fair values of awards granted and related assumptions are included in section (c) below

17 Share based payments - continued

A reconciliation of movements in the allocations is as follows

	2009 Number (i)	2008 Number (i)
Outstanding at start of period	**97,619**	**80,724**
Granted	**54,377**	**39,532**
Exercised	**(37,085)**	**(22,637)**
Forfeited	-	-
Transfer to/from other group companies	**3,959**	-
Outstanding at end of period	**118,870**	**97,619**
Exercisable at end of period	-	-

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue Details of the Rights Issue are provided above

For shares released during the period, the weighted average share price at the date of was £2 31 (2008 £2 71) The 2008 share price was adjusted to reflect the bonus element of the Rights Issue

SIP

Under SIP, employees in the UK may purchase 'partnership shares' through monthly salary deductions Centrica plc then grants one 'matching share' for every two partnership shares purchased, up to a maximum of 22 matching shares per employee per month (increased in 2009 from 20 to 22 matching shares to reflect the bonus element of the Rights Issue) Both partnership shares and matching shares are held in a trust Partnership shares may be withdrawn at any time, however 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 (except where permitted by the rules of the scheme) Matching shares are valued at the market price at the grant date Details of the fair values of awards granted and related assumptions are included in section (c) below

A reconciliation of matching shares held in trust is as follows

	2009 Number (i)	2008 Number (i)
Unvested at start of period	**78,636**	66,146
Granted	**48,537**	39,985
Shares sold and transferred out of the plan	-	(23,630)
Forfeited	**(5,637)**	(3,865)
Transfer to/from other group companies	-	-
Unvested at end of period	**121,536**	78,636

(i) Movements in allocations prior to 14 November 2008 have been adjusted to reflect the bonus element of the Rights Issue Details of the Rights Issue are provided above

For shares released during the period, the weighted average share price was £2 52 (2008 £2 77) The 2008 share price was adjusted to reflect the bonus element of the Rights Issue

17 Share based payments – continued

b) Fair values and associated details of options granted

	Sharesave	
	2009	2008
Number of options originally granted (i)	**633,922**	439,153
Weighted average fair value at grant date (i)	**£0.49**	£0 66
Weighted average share price at grant date (i)	**£2.30**	£2 71
Weighted average exercise price (i)	**£1.94**	£2 27
Expected volatility (ii)	**29.4%**	23 2%
Contractual option life	**4.3**	4 7
Expected life	**4.3**	4 4
Vesting period	**4.0**	4 4
Expected dividend yield	**5.00%**	3 50%
Risk-free interest rate (iii)	**2.43%**	4 10%
Expected forfeitures	**31%**	34%

c) Fair values and associated details of shares granted:

2009	**LTIS**	**SAS**	**SIP**
Number of equity instruments at grant date	**64,752**	**54,377**	**48,537**
Weighted average fair value at grant date	**£1.64**	**£2.22**	**£2.45**
Vesting period	**3**	**2.5**	**3**
Expected volatility (ii)	**31%**	**n/a**	**n/a**
Expected forfeitures	**25%**	**20%**	**0%**
Risk-free rate (iii)	**2.2%**	**n/a**	**n/a**
Average volatility of FTSE 100	**31%**	**n/a**	**n/a**
Average cross-correlation of FTSE 100 (iv)	**39.8%**	**n/a**	**n/a**

2008	LTIS	SAS	SIP
Number of equity instruments at grant date	49,483	35,188	35,592
Number of equity instruments at grant date adjusted for Rights Issue (i)	55,591	39,531	39,985
Weighted average fair value at grant date	£2 197	£3 05	£3 02
Weighted average fair value at grant date adjusted for Rights Issue (i)	£1 956	£2 71	£2 69
Vesting period	3	2 5	3
Expected volatility (ii)	22%	n/a	n/a
Expected forfeitures	25%	20%	0%
Risk-free rate (iii)	4 02%	n/a	n/a
Average volatility of FTSE 100	27%	n/a	n/a
Average cross-correlation of FTSE 100 (iv)	30%	n/a	n/a

(i) For options granted prior to 14 November 2008, amounts have been adjusted to take account of the bonus element of the Rights Issue Details of the Rights Issue are provided above
(ii) The expected volatility is based on historical volatility over the last three years
(iii) The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life
(iv) 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

18 Commitments and contingent liabilities

a) Capital expenditure

Contracted future capital expenditure, as at 31 December 2009, was £2,961,393 (as at 31 December 2008 £1,000,000)

b) Operating lease commitments

As at 31 December 2009 commitments for the following year under operating leases were as follows

	Land and buildings		Other	
	As at 31 December 2009 £000	As at 31 December 2008 £000	**As at 31 December 2009 £000**	As at 31 December 2008 £000
Expiring after five years	**353**	335	**324**	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 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 £2,175,000,000 (2008 £1,350,000), C$200,000 (2008 C$200,000) and NZ$306,000 (2008 NZ$299,000) 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

e) Contingent liabilities

There are no contingent liabilities which require disclosure

19 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

	2009 £000	2008 £000
Derivative financial instruments held for trading		
Foreign exchange derivatives - assets	**123**	301

20 Pensions

The majority of the Company's UK employees as at 31 December 2009 were members of one of the three main schemes in the Centrica plc Group, the Centrica 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 year were £13,835,000 (2008 £5,378,000) The amount outstanding at the balance sheet date was £nil (2008 £nil) The latest actuarial valuation of the schemes, updated for the purposes of FRS17 show a total deficit of £367 million (£265 million net of deferred tax) (2008 total deficit of £96 million (£70 million net of deferred tax) These pension schemes are included on a consolidated basis within the group accounts 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 triennially, the last of which was as at 31 March 2009

21 Post balance sheet events

The Company has taken advantage of the provisions of the Companies Act 2006 (the 'Act') to abolish the requirement to have an authorised share capital A Special Resolution was passed by the Company's sole member on 5 February 2010 to delete all provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Act, were treated as provisions of the Company's Articles of Association and then by adopting new Articles of Association

In June 2010 the Company's ultimate parent company agreed with HM Revenue and Customs a basis for closing a number of open taxation issues across the Group Agreement at the entity level has yet to take place and accordingly it is too early to assess the full extent to which the Company's taxation balances might be impacted but the provision recorded represents management's best estimate

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010 reduced the main rate of corporation tax from 28% to 27% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements The impact of these changes on the deferred tax balances is not expected to be material since no changes have been proposed to the rate of tax applying to upstream activities

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 Reserves (unaudited)

The Company's estimates of reserves of gas are reviewed as part of the half-year and full-year reporting process and updated accordingly A number of factors affect the volumes of gas 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 managements 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 (formerly known as Venture Production plc) 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 and North Morecambe

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

	2009	2008
As at 1 January	**772**	943
Revisions of previous estimates	-	-
Production	**(84)**	(171)
As at 31 December	**688**	772