

HYDROCARBON RESOURCES LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2004



REGISTERED NO: 3115179

Hydrocarbon Resources Limited

DIRECTORS' REPORT

The Directors present their report and the audited accounts of Hydrocarbon Resources Limited ("the Company") for the year ended 31 December 2004.

Principal activities

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

Financial results and business review

The Company, as part of the Centrica plc group, continued its major activity in the production of gas and associated condensate from its two production fields (North and South Morecambe) in Morecambe Bay. These fields represent the largest producing gas fields in the UK continental shelf, with proven and probable reserves of approximately 1,369 billion cubic feet at 31 December 2004 (2003 – 1,716 billion cubic feet). Production of gas amounted to 347 billion cubic feet (2003: 347 billion cubic feet) in the year with total condensate sales equivalent to 556,000 barrels of oil (2003: 557,000 barrels of oil).

In addition to the Morecambe gas fields, Hydrocarbon Resources Limited is Operator of the Bains field (52.8% working interest).

The Company's profit after tax for the year is £608,416,000 (year ended 31 December 2003: £565,753,000).

In the year to 31 December 2004, £(1,791,584,000) has been transferred to reserves (£565,753,000 transferred to reserves for the year ended 31 December 2003).

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

Results and dividends

Two 'special' dividends of £2,000,000,000 and £400,000,000 were paid during the fourth quarter of the year. The directors do not recommend payment of a final dividend for the year ended 31 December 2004. (2003: £nil).

Directors

The following served as Directors during the year ended 31 December 2004:

Alan Bennett (resigned 28 April 2005)
Michael John Garstang
Jacob Shields Ulrich
Sarwjit Sambhi (resigned 28 April 2005)
Peter Kevin Cochrane (appointed 2 February 2004)
John Nicholas Shears (appointed 28 April 2005)
Nicholas James Dunn (appointed 28 April 2005)

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

Directors' interests

At no time during the year ended 31 December 2004, did any director have any interest in the shares of the Company or any other company in the Centrica group, except for the interests in, and the options over, the shares and interests of the ultimate parent company, Centrica plc.

The Directors with interests in and options over the ordinary shares of Centrica plc at year-end are as follows:

Interests in ordinary shares

(As defined by section 325 of the Companies Act 1985)

Beneficial Interest in ordinary shares

	As at 1 January 2004	As at 31 December 2004
Alan Bennett	3,810	2,077
Kevin Cochrane*	16,263	32,089
Michael Garstang	246	-
Jacob Ulrich	512,588	527,936
Sarwjit Sambhi	-	-

* As at date of appointment

The figures above include shares held under the Centrica Share Incentive Plan.

On 25 October 2004, the ordinary share capital of Centrica plc was consolidated on the basis of 9 new ordinary shares of 6 ¹⁴/₈₁ pence per share for every 10 existing ordinary shares of 5 ⁵/₉ pence per share. Shares shown as 31 December 2003 are on a pre-consolidation basis and those shown at 31 December 2004 are shown on a post-consolidation basis.

Centrica Sharesave scheme

	As at 1 January 2004	Granted during the period	Exercised during the period	Lapsed during the period	As at 31 December 2004
Alan Bennett	8,823	-	-	-	8,823
Kevin Cochrane*	12,949	-	5,281	-	7,668
Jacob Ulrich	8,823	-	-	-	8,823
Sarwjit Sambhi	-	-	-	-	-
Michael Garstang	-	-	-	-	-

* As at date of appointment

Options were granted under the terms of the scheme on 6 April 2004 at an option price of 182.6 pence per share.

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

Long term incentive schemes

	As at 1 January 2004	Granted during the period	Exercised during the period	Lapsed during the period	As at 31 December 2004
Alan Bennett	146,664	34,574	43,813	5,977	131,448
Kevin Cochrane*	85,183	19,946	25,892	3,563	75,674
Michael Garstang	93,504	21,365	15,369	5,123	94,377
Sarwjit Sambhi	151,686	45,899	32,019	10,674	154,892
Jacob Ulrich	914,301	166,223	324,776	37,052	718,696

* As at date of appointment

Total allocations as at 31 December 2004 shown above include both allocations of shares that are subject to performance conditions and allocations of shares that have reached the conclusion of the relevant three-year performance period but are subject to a two-year retention period.

A conditional allocation of shares was made under the terms of the scheme on 1 April 2004 at a price of 225.6 per share.

Centrica Executive Share Option Scheme

	As at 1 January 2004	Granted during the period	Exercised during the period	As at 31 December 2004
Michael Garstang	-	-	-	-
Jacob Ulrich	1,317,890	419,736	-	1,737,626
Sarwjit Sambhi	208,488	89,340	-	297,828
Kevin Cochrane*	-	-	-	-
Alan Bennett	102,319	66,979	-	169,298

* As at date of appointment

Under the terms of the scheme a further grant of options was made on 18 March 2004 at an option price of 223.95 pence per share.

Options were granted under the terms of the ultimate parent company's Sharesave scheme, Executive Share Option scheme and Restructured Share Option scheme, and allocations made under the terms of the Long-term Incentive scheme. Details of these schemes and the Share Incentive Plan can be found in the 2004 accounts of Centrica plc, copies of which can be obtained from the Secretariat Department of Centrica plc or from www.centrica.com.

The middle market price of a Centrica plc ordinary share on the last day of trading of 2004 (31 December) was 236.25 pence. The range during the year was 256.25 pence (high) and 196.94 pence (low).

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

As at 31 December 2004, 6,400,000 shares (1 January 2004: 21,200,505) were held by the trustee of the employee share trust under the LTIS rules. The directors are deemed to have a potential interest in those shares, being beneficiaries under the trust.

There were no contracts of significance during or at the end of the financial year to which the Company or any subsidiary and associated undertakings is a party and in which any director is or was materially interested.

Related party transactions

The Company has taken advantage of the exemptions within Financial Reporting Standard No 8 "Related Party Disclosures" from disclosure of transactions with other Centrica group companies. There have been no other disclosable related party transactions during the year (2003: £nil).

Creditor payment policy

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

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

Political and charitable donations

The Company made charitable donations of £6,317 during the year (2003: £nil), and no political donations.

Employment policies

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

Employee communications

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

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

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.

Auditors

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

By order of the Board



IAN RITCHIE

For and on behalf of
Centrica Secretaries Limited
(Company Secretary)

Date: 25 OCTOBER 2005

Registered Office:

Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Hydrocarbon Resources Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR PREPARING THE FINANCIAL STATEMENTS

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

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

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

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

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

Hydrocarbon Resources Limited

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF HYDROCARBON RESOURCES LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet, and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

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

Date: 25.10.05

Hydrocarbon Resources Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	Year ended 31 December 2004 £000	Year ended 31 December 2003 £000
Turnover	2	1,268,611	1,070,120
Cost of sales		<u>(429,874)</u>	<u>(360,584)</u>
Operating profit		838,737	709,536
Other interest receivable and similar income	4	3,540	11,966
Interest payable and similar charges	4	<u>(12,072)</u>	<u>(9,906)</u>
Profit on ordinary activities before taxation		830,205	711,596
Tax on profit on ordinary activities	5	<u>(221,789)</u>	<u>(145,843)</u>
Profit on ordinary activities after taxation		608,416	565,753
Dividend		<u>(2,400,000)</u>	<u>-</u>
Retained loss for the financial period	14	<u>(1,791,584)</u>	<u>565,753</u>

All activities relate to continuing operations.

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


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

Hydrocarbon Resources Limited

BALANCE SHEET AS AT 31 DECEMBER 2004

	Notes	As at 31 December 2004 £000	As at 31 December 2003 £000
Fixed assets			
Tangible fixed assets	6	510,135	636,942
Current assets			
Stocks	7	16,948	14,748
Debtors (amount falling due within one year)	8	1,488,974	3,166,631
Cash at bank and in hand		<u>18</u>	<u>263</u>
		1,505,940	3,181,642
Creditors (amounts falling due within one year)			
Borrowings	9	(24,939)	(34,563)
Creditors	10	<u>(225,207)</u>	<u>(100,574)</u>
		(250,146)	(135,137)
Net current assets		<u>1,255,794</u>	<u>3,046,505</u>
Total assets less current liabilities		1,765,929	3,683,447
Creditors (amounts falling due after one year)			
Borrowings	9	(282)	(25,221)
Provisions for liabilities and charges	11	<u>(366,217)</u>	<u>(467,212)</u>
Net assets		<u>1,399,430</u>	<u>3,191,014</u>
Capital and reserves - equity interests			
Called up share capital	13	800,000	800,000
Share premium account	14	447,162	447,162
Profit and loss account	14	<u>152,268</u>	<u>1,943,852</u>
Shareholder funds	15	<u>1,399,430</u>	<u>3,191,014</u>

The accounts on pages 8 to 23 were approved by the Board of Directors on 25.10.05 and were signed on its behalf by:


(Director) *John W. Swales*

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS

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

1 Principal accounting policies

a) Exemptions

As the Company is a wholly owned subsidiary of British Gas Trading Limited which is a wholly owned subsidiary of Centrica plc, the Company has taken advantage of the exemptions within FRS 1, "Cash Flow Statements" from presenting a cash flow statement and within FRS 8, "Related Party Disclosures" from disclosure of transactions with other companies that are part of the Centrica plc group.

b) Turnover

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

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

c) Cost of sales

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

d) Foreign currencies

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

1 Principal accounting policies (continued)

e) **Tangible fixed assets**

Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment. Other tangible fixed assets, except exploration and production assets, are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

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

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

f) **Decommissioning costs**

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

g) **Leases**

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

h) **Stocks**

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

1 Principal accounting policies (continued)

i) Pensions

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

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

j) Taxation

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

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

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

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

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

1 Principal accounting policies (continued)

k) Long Term Incentive Scheme

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

l) Employee Sharesave Scheme

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

2 Segmental analysis

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

3 Profit on ordinary activities before taxation

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

	Year ended 31 December 2004 £000	Year ended 31 December 2003 £000
a) Depreciation and amortisation:		
Owned assets	126,794	142,628
Leased assets	<u>18,517</u>	<u>17,382</u>
	<u>145,311</u>	<u>160,010</u>
b) Operating lease rentals:		
Other operating leases - Land and buildings	462	393
c) Auditors' remuneration:		
Audit fees	60	50
Other professional and consultancy fees	<u>-</u>	<u>-</u>
	<u>60</u>	<u>50</u>
d) Directors' emoluments		
	Year ended 31 December 2004 £000	Year ended 31 December 2003 £000
Aggregate emoluments	<u>466</u>	<u>176</u>

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

Under the Centrica plc Group long-term incentive scheme, five Directors received shares during the year.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

3 Profit on ordinary activities before taxation (continued)

e) Employee costs

	Year ended 31 December 2004 £000	Year ended 31 December 2003 £000
Wages and salaries	15,889	14,959
Social security costs	1,723	1,474
Other pension costs	<u>2,941</u>	<u>1,523</u>
	<u>20,553</u>	<u>17,956</u>

f) Employee numbers

The average number of employees during the year ended 31 December 2004 was 329 (year ended 31 December 2003: 321).

4 Interest

i) Other interest receivable and similar income:

Interest receivable from group undertakings	(3,540)	(11,966)
Other interest receivable	<u>-</u>	<u>-</u>
	<u>(3,540)</u>	<u>(11,966)</u>

ii) Interest payable and similar charges:

Finance lease charges	4,383	6,734
Other interest payable	4,889	593
Notional interest arising on discounted items	<u>2,800</u>	<u>2,579</u>
	<u>12,072</u>	<u>9,906</u>

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

5 Tax on profit on ordinary activities

	Year ended 31 December 2004 £000	Year ended 31 December 2003 £000
Current tax:		
- UK corporation tax at 40%	214,933	179,692
- Adjustments in respect of prior periods	<u>9,355</u>	<u>(33,386)</u>
Total current tax	224,288	146,306
Deferred tax:		
- Deferred petroleum revenue tax (PRT) relief	35,966	39,667
- Other timing differences	(38,465)	(41,170)
- Adjustments in respect of prior periods	-	1,040
Taxation charge	<u>221,789</u>	<u>145,843</u>

Based upon the profit on ordinary activities before taxation, the effective taxation rate for the period was 30.0% (year ended 31 December 2003: 20.5%). The movement in the deferred tax provision is disclosed in note 11.

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

	Year ended 31 December 2004 £000	year ended 31 December 2003 £000
Profit on ordinary activities before tax	<u>830,206</u>	<u>711,596</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30%	249,062	213,479
Effects of:		
- Expenses not deductible for tax purposes	(89,334)	(75,005)
- Utilisation of timing differences	312	898
- Depreciation in excess of capital allowances	27,701	25,540
- Movement on deferred PRT provision	(26,974)	(29,751)
- Supplementary charge applicable to upstream profits	54,501	44,531
- Group relief for nil consideration	(335)	
- Adjustments to tax charge in respect of previous periods	<u>9,355</u>	<u>(33,386)</u>
Current tax charge for the period	<u>224,288</u>	<u>146,306</u>

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

6 Tangible fixed assets - proved gas properties	£000
As at 1 January 2004	2,759,594
Additions	13,785
Revision of abandonment asset	<u>4,719</u>
As at 31 December 2004	<u>2,778,098</u>
Depreciation and amortisation	
As at 1 January 2004	2,122,652
Charge for the year	<u>145,311</u>
As at 31 December 2004	<u>2,267,963</u>
Net book value	
As at 31 December 2004	<u>510,135</u>
As at 1 January 2004	<u>636,942</u>

The net book value of tangible fixed assets held under finance leases, as at 31 December 2004, was £81,741,000 (2003: £100,258,000). 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 2004 were £7,588,000 (2003: £4,681,000).

7 Stocks

	As at 31 December 2004 £000	As at 31 December 2003 £000
Operational spares and consumables	<u>16,948</u>	<u>14,748</u>

8 Debtors

	As at 31 December 2004 £000	As at 31 December 2003 £000
Amounts owed by group undertakings	1,482,431	3,158,556
Other debtors	6,018	7,770
Prepayments and accrued income	<u>525</u>	<u>305</u>
	<u>1,488,974</u>	<u>3,166,631</u>

The amounts owed by group undertakings include £Nil (31 December 2003: £1,362,807,000) due after more than one year.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

9 Borrowings

	As at 31 December 2004 £000	As at 31 December 2003 £000
Amount falling due within one year		
Bank overdraft	-	-
Amounts payable under finance leases	<u>24,939</u>	<u>34,563</u>
	<u>24,939</u>	<u>34,563</u>
Amounts falling due after more than one year		
Amounts payable under finance leases	<u>282</u>	<u>25,221</u>

Obligations under finance leases were repayable as follows:-

	As at 31 December 2004 £000	As at 31 December 2003 £000
Between one and two years	282	25,221
Between two and five years	-	-
Total	<u>282</u>	<u>25,221</u>

10 Creditors

	As at 31 December 2004 £000	As at 31 December 2003 £000
Amounts falling due within one year		
Trade creditors	1,314	5,370
Amounts owed to group undertakings	443	219
Taxation and social security	147,543	83,254
Other creditors	45,014	2,449
Accruals and deferred income	<u>30,893</u>	<u>9,282</u>
	<u>225,207</u>	<u>100,574</u>

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

11 Provisions for liabilities and charges

	Decommissioning Costs £000	Pension Costs £000	Long Term Incentive Scheme £000	Employee Sharesave Scheme £000	Deferred PRT £000	Deferred CT £000	Total £000
As at 1 January 2004	91,792	3,655	904	97	287,149	83,615	467,212
Revisions	4,719	-	-	-	-	-	4,719
Profit and loss charge/(credit)	2,800	302	410	525	198,832	(2,499)	200,370
Utilised in the period	<u>(2)</u>	<u>(2,614)</u>	<u>2</u>	<u>27</u>	<u>(303,497)</u>	<u>-</u>	<u>(306,084)</u>
As at 31 December 2004	<u>99,309</u>	<u>1,343</u>	<u>1,316</u>	<u>649</u>	<u>182,484</u>	<u>81,116</u>	<u>366,217</u>

Decommissioning costs

Provision has been made for the estimated net present cost of decommissioning gas production facilities at the end of their producing lives. The estimate has been based on proved and probable reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments are dependent on the lives of a number of fields but are anticipated to occur between 2010 and 2017. The revision in the period is due to an increase in the estimate for gas field abandonment costs. The profit and loss charge includes £2,800,000 (year ended 31 December 2003 - £2,579,000) of notional interest.

Pension costs

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

Long Term Incentive Scheme

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

Employee Sharesave Scheme

The qualifying employee sharesave scheme provision has been calculated based on the difference between the market price (as at 31 December 2004) and the option price of shares being purchased by employees through the Centrica plc sharesave scheme spread over the remaining life of the scheme.

Deferred PRT (petroleum revenue tax)

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

12 Deferred corporation tax

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

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

	As at 1 January 2004	Profit and loss charge/ (credit)	As at 31 December 2004
	£000	£'000	£'000
Deferred corporation tax			
- accelerated capital allowances	199,976	(39,169)	160,807
- deferred PRT	(114,860)	35,966	(78,894)
- other timing differences	<u>(1,501)</u>	<u>704</u>	<u>(797)</u>
	<u>83,615</u>	<u>(2,499)</u>	<u>81,116</u>

Deferred corporation tax provision/(asset) at 40% (as at 31 December 2003: 40%) is analysed as follows:-

	Provided		Unprovided	
	As at 31 December 2004	As at 31 December 2003	As at 31 December 2004	As at 31 December 2003
	£'000	£'000	£'000	£'000
Deferred corporation tax				
- accelerated capital allowances	160,807	199,976	-	-
- deferred PRT	(78,894)	(114,860)	-	-
- other timing differences	<u>(797)</u>	<u>(1,501)</u>	<u>(36,992)</u>	<u>(37,021)</u>
	<u>81,116</u>	<u>83,615</u>	<u>(36,992)</u>	<u>(37,021)</u>

13 Called up share capital

	As at 31 December 2004 & 31 December 2003 £000
Authorised	
800,000,100 ordinary shares of £1 each	<u>800,000</u>
Issued, allotted and fully paid	
800,000,001 ordinary shares of £1 each	<u>800,000</u>

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

14 Reserves

	Share Premium £000	Profit & Loss Account £000	Total £000
As at 1 January 2004	447,162	1,943,852	2,391,014
Retained profit for the period	<u>-</u>	<u>(1,791,584)</u>	<u>(1,791,584)</u>
As at 31 December 2004	<u>447,162</u>	<u>152,268</u>	<u>599,430</u>

15 Reconciliation of movements in shareholder funds

	As at 31 December 2004 £000	As at 31 December 2003 £000
Profit on ordinary activities after tax for the period	608,416	565,753
Dividends	<u>(2,400,000)</u>	<u>-</u>
Net movement in shareholder funds for the period	<u>(1,791,584)</u>	<u>565,753</u>
Shareholder funds at the beginning of the period	<u>3,191,014</u>	<u>2,625,261</u>
Shareholder funds at the end of the period	<u>1,399,430</u>	<u>3,191,014</u>

16 Pensions – Disclosures in accordance with FRS 17

Pensions policy

Pensions are accounted for in accordance with SSAP24, Pension costs. The Company participates in group defined benefit pension schemes and contributions and pension costs are based on pension costs across the Group as a whole.

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

Pensions Note

The Company accounts for pensions in accordance with SSAP24 but includes additional disclosures as required under the transitional arrangements of FRS17.

The majority of the Company's UK employees as at 31 December 2004 were members of two of the three main schemes in the Centrica plc Group; the Centrica Pension Scheme, the Centrica Engineers Pension Scheme.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

16 Pensions – Disclosures in accordance with FRS 17 (continued)

These schemes 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 £2,941,000 (2004: £2,408,000). The amount outstanding at the balance sheet date was £nil (2004: £Nil). The latest actuarial valuation of the schemes, prepared for the purposes of making the transitional disclosures in accordance with FRS17 in the consolidated financial statements of Centrica plc, show a total deficit of £516 million (2003: £618 million), £361 million net of deferred tax (2003: £340 million net of deferred tax). Further details of this valuation can be found in the annual report of Centrica plc.

The liabilities under the pension schemes will be paid out over an extended period. The Company is contributing to the pension fund on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on triennial funding valuations, the last of which was as at 31 March 2004.

17 Commitments and contingencies

a) Capital expenditure

Contracted future capital expenditure, as at 31 December 2004, was £8,225,000 (as at 31 December 2003: £2,734,000).

b) Operating lease commitments

As at 31 December 2004 commitments for the following year under operating leases were as follows:

	Land and Buildings		Other	
	As at 31 December 2004 £'000	As at 31 December 2003 £'000	As at 31 December 2004 £'000	As at 31 December 2003 £'000
Expiring after five years	<u>292</u>	<u>515</u>	<u>225</u>	-

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

17 Commitments and contingencies (continued)

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 £915,000,000 with various financial institutions. The Company was one of the guarantors of that facility, such that it has guaranteed, jointly and severally, to pay on demand any sum, which Centrica plc does not pay in accordance with the facility agreement.

18 Ultimate parent company

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

Hydrocarbon Resources Limited

GAS RESERVES (unaudited)

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

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

	UK
As at 1 January 2004	1,716
Revisions of previous estimates	-
Production	<u>(347)</u>
As at 31 December 2004	<u>1,369</u>