

3

HYDROCARBON RESOURCES LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2001

REGISTERED NO: 3115179



Hydrocarbon Resources Limited

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Hydrocarbon Resources Limited

DIRECTORS' REPORT

The Directors submit their report and the audited accounts of Hydrocarbon Resources Limited ("the Company") for the year ended 31 December 2001.

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 2,383 billion cubic feet (as at 31 December 2001). Production of gas amounted to 384 billion cubic feet (2000: 423 billion cubic feet) in the year with total condensate sales equivalent to 621,000 barrels of oil (2000: 969,000 barrels of oil).

The South Morecambe field operated close to maximum capacity in response to the high level of demand.

The Company's profit for the financial year is £698,192,000 (2000: £403,231,000).

In 2001, £698,192,000 has been transferred to reserves (£646,769,000 transferred from reserves in 2000).

Results and dividends

No dividend was paid for the year ended 31 December 2001 (2000: £1,050,000,000).

Creditor payment policy

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

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

The number of days of average daily purchases included in trade creditors at 31 December 2001 was 23 days (2000: 23 days).

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

Employment policies

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

Employee communications

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

Directors

The following served as Directors during the year:

David Clarke

John Nicholas Shears

Jacob Shield Ulrich

Michael John Garstang (appointed 1 August 2001)

Alan Bennett (appointed 24 October 2001)

Directors' interests

At no time during the year ended 31 December 2001, did any director have any interest in the shares of the Company or any other company in the Centrica plc group, except for the interests in, and the options over, the shares and interests of the ultimate parent company, Centrica plc, as set out below.

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

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

Interests in ordinary shares

	As at 1 January 2001	As at 31 December 2001
David Clarke	3,856	1,602
John Shears	951	1,197
Jacob Ulrich	103,790	69,036
Michael Garstang	-	246
Alan Bennett	6,357*	6,357

Interests shown include shares held under the terms of the Centrica plc profit sharing scheme, where applicable.

* as at date of appointment

Sharesave

	As at 1 January 2001	As at 31 December 2001
David Clarke	21,942	21,942
John Shears	4,944	5,958
Jacob Ulrich	37,176	37,176
Michael Garstang	5,962*	5,962
Alan Bennett	5,462*	5,462

Options over shares in Centrica plc granted in June 1997, June 1998, December 1999, June 2000 and April 2001 were at an option price of 46.4, 92.2, 127.8, 202.6 and 191.0 pence per share respectively.

* as at date of appointment

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

Long term incentive schemes

	As at 1 January 2001	Granted during the year	Exercised during the year	As at 31 December 2001
David Clarke	219,768	28,055	-	247,823
John Shears	363,327	39,033	-	402,360
Jacob Ulrich	1,448,402	148,206	(95,694)	1,500,914
Michael Garstang	28,342*	20,492	-	48,834
Alan Bennett	127,732*	23,908	-	151,640

Notional allocations of shares were made on 1 October 2001 at a base price of 234.37 pence. Figures as at 31 December 2001 shown above include notional allocations of shares subject to performance conditions and for Alan Bennett, David Clarke, John Shears and Jacob Ulrich, allocations of shares that have reached the conclusion of the relevant performance period but will not be transferred until the expiry of the retention period (a further two years).

* as at date of appointment

Centrica Executive Share Option Scheme

	As at 1 January 2001	Granted during the year	As at 31 December 2001
David Clarke	-	47,906	47,906
John Shears	-	66,652	66,652
Jacob Ulrich	-	337,429	337,429
Michael Garstang	-	-	-
Alan Bennett	-	-	-

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

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

The closing price of a Centrica ordinary share on the last trading day of 2001 (31 December) was 222 pence. The range during the year was 257 pence (high) and 199.75 pence (low).

Hydrocarbon Resources Limited

DIRECTORS' REPORT (continued)

Directors' insurance

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


Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors.

The Company has passed an elective resolution to dispense with the need to hold Annual General Meetings and the laying of accounts before them and with the need to reappoint Auditors annually.

This report was approved by the Board on

By order of the Board

 **IAN RITCHIE**

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

Date: 22 October 2002

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 SHAREHOLDERS OF HYDROCARBON RESOURCES LIMITED

We have audited the financial statements of Hydrocarbon Resources Limited (the "Company") for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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

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

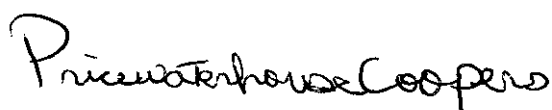
Basis of audit opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

Date: 22 October 2002

Hydrocarbon Resources Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
Turnover	3	1,209,880	894,253
Cost of sales		<u>(386,334)</u>	<u>(394,455)</u>
Operating profit		823,546	499,798
Other interest receivable and similar income	4	24,318	11,899
Interest payable and similar charges	4	<u>(16,434)</u>	<u>(21,527)</u>
Profit on ordinary activities before taxation	4	831,430	490,170
Tax on profit on ordinary activities	6	<u>(133,238)</u>	<u>(86,939)</u>
Profit on ordinary activities after taxation		698,192	403,231
Dividend		-	<u>(1,050,000)</u>
Transfer to/(from) reserves	14	<u>698,192</u>	<u>(646,769)</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 2001

	Notes	As at 31 December 2001 £000	As at 31 December 2000 £000
Fixed assets			
Tangible assets	7	918,759	1,075,284
Current assets			
Stocks	8	13,109	12,685
Debtors	9	2,226,162	1,516,997
Cash at bank and in hand		-	-
		<u>2,239,271</u>	<u>1,529,682</u>
Creditors (amounts falling due within one year)			
Borrowings	10	(28,456)	(25,492)
Creditors	11	<u>(275,797)</u>	<u>(226,460)</u>
		<u>(304,253)</u>	<u>(251,952)</u>
Net current assets		<u>1,935,018</u>	<u>1,277,730</u>
Total assets less current liabilities		<u>2,853,777</u>	<u>2,353,014</u>
Creditors (amounts falling due after one year)			
Borrowings	10	(91,016)	(119,232)
Provisions for liabilities and charges	12	<u>(679,784)</u>	<u>(848,997)</u>
		<u>2,082,977</u>	<u>1,384,785</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>835,815</u>	<u>137,623</u>
Shareholders' funds	15	<u>2,082,977</u>	<u>1,384,785</u>

The accounts on pages 8 to 23 were approved by the Board of Directors on 22 October 2002 and were signed on its behalf by:



David Clarke (Director)

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985. Both Financial Reporting Standard (FRS) 18, Accounting Policies, and FRS 19, Deferred Tax, were adopted in 2001. In accordance with the transitional arrangements of FRS 17, Retirement Benefits, additional disclosures are contained in the notes to the financial statements.

1 Principal accounting policies

a) Exemptions

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

b) Turnover

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

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

c) Cost of sales

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

d) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange.

Exchange differences on monetary assets and liabilities are taken to the profit and loss account, except that exchange differences on foreign currency borrowings used to finance or hedge foreign currency net investments in overseas subsidiary undertakings and joint ventures are taken directly to reserves. All other exchange movements are dealt with through the profit and loss account

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

1 Principal accounting policies (continued)

e) Tangible fixed assets

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

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

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

f) Decommissioning costs

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

g) Leases

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

h) Stocks

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

1 Principal accounting policies (continued)

i) Pensions

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

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

j) Taxation

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

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

This is a change in accounting policy as described in note 2. 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 difference between the contribution receivable from employees and 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 Change in accounting policy

In 2001, the Company adopted FRS 19, Deferred Tax. The impact of the change in accounting policy did not have a material impact on the current year charge or the prior year comparative numbers as the Company had previously fully provided for deferred taxes under SSAP 15.

3 Segmental analysis

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

4 Profit on ordinary activities before taxation

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

	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
a) Depreciation and amortisation:		
Owned assets	150,294	180,538
Leased assets	20,273	21,635
b) Operating lease rentals:		
Land and buildings	537	641
c) Auditor's remuneration:		
Audit fees	36	35
Other professional and consultancy fees	36	14
d) Other interest receivable and similar income:		
Interest receivable from group undertakings	(23,325)	(11,742)
Other interest receivable	(993)	(157)
e) Interest payable and similar charges:		
Interest payable to group undertakings	-	1,109
Finance lease charges	13,746	17,125
Other interest payable	298	-
Notional interest arising on discounted items	2,390	3,293

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

5 Directors and employees

a) Directors' emoluments

	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
Aggregate emoluments	<u>168</u>	<u>144</u>

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

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

b) Employee costs

	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
Wages and salaries	14,114	13,695
Social security costs	1,259	1,278
Other pension costs	1,576	1,384
Employee profit sharing scheme	<u>105</u>	<u>185</u>
	17,054	16,542
Redundancy costs	<u>1,275</u>	<u>25</u>
	<u>18,329</u>	<u>16,567</u>

c) Employee numbers

The average number of employees during the year ended 31 December 2001 was 335 (2000: 353).

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

6 Taxation on profit on ordinary activities

	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
Current tax:		
- UK corporation tax at 30% (2000: 30%)	135,631	133,232
- Adjustments in respect of prior years	(27,880)	-
Total current tax	107,751	133,232
Deferred tax:		
- Deferred petroleum revenue tax (PRT) relief	49,240	6,432
- Other timing differences	(23,753)	(46,463)
- Adjustments in respect of prior years	-	(6,262)
Taxation charge	<u>133,238</u>	<u>86,939</u>

Based upon the profit on ordinary activities before taxation, the effective taxation rate for the period was 16.0% (2000: 17.7%). The movement in the deferred tax provision is disclosed in note 12.

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

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

	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
Profit on ordinary activities before tax	<u>831,430</u>	<u>490,170</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2000: 30%)	249,429	147,051
Effects of:		
- Expenses not deductible for tax purposes	(88,416)	(54,503)
- Utilisation of timing differences	(9,180)	1,330
- Depreciation in excess of capital allowances	33,038	45,786
- Movement on deferred PRT provision	(49,240)	(6,432)
- Adjustments to tax charge in respect of previous periods	(27,880)	-
Current tax charge for the year	<u>107,751</u>	<u>133,232</u>

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

7 Tangible fixed assets - proved gas properties	£000
As at 1 January 2001	2,699,033
Additions	42,672
Acquisitions	2,958
Revision of abandonment asset	(31,588)
As at 31 December 2001	<u>2,713,075</u>
Accumulated depreciation	
As at 1 January 2001	1,623,749
Charge for the year	170,567
As at 31 December 2001	<u>1,794,316</u>
Net book value	
As at 31 December 2000	<u>1,075,284</u>
As at 31 December 2001	<u>918,759</u>

The net book value of tangible fixed assets held under finance leases as at 31 December 2001 was £136,314,000 (2000: £156,587,000). This represents certain South Morecambe gas field production assets sold and leased back in 1998 and 1999.

8 Stocks

	As at 31 December 2001 £000	As at 31 December 2000 £000
Operational spares and consumables	<u>13,109</u>	<u>12,685</u>

9 Debtors

	As at 31 December 2001 £000	As at 31 December 2000 £000
Amounts owed by group undertakings	2,219,304	1,512,909
Other debtors	658	118
Prepayments and accrued income	6,200	3,970
	<u>2,226,162</u>	<u>1,516,997</u>

The amounts owed by group undertakings includes £205,000,000 (2000: £205,000,000) due after more than one year.

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

10 Borrowings

	As at 31 December 2001 £000	As at 31 December 2000 £000
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Amount falling due within one year
Amounts payable under finance leases

28,456 25,492

Amounts falling due after more than one year
Amounts payable under finance leases

91,016 119,232

Obligation under finance leases were repayable
as follows:-

	As at 31 December 2001 £000	As at 31 December 2000 £000
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Between one and two years
Between two and five years
Total

31,233 28,216
59,783 91,016
91,016 119,232

11 Creditors

	As at 31 December 2001 £000	As at 31 December 2000 £000
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Amounts falling due within one year

Trade creditors	2,325	2,423
Amounts owed to group undertakings	2,234	31,415
Taxation and social security	97,220	87,083
Other creditors	158,003	87,048
Accruals and deferred income	<u>16,015</u>	<u>18,491</u>
	<u>275,797</u>	<u>226,460</u>

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

12 Provisions for liabilities and charges

	Decommissioning Costs £000	Pension Costs £000	Long Term Incentive Scheme £000	Employee Sharesave Scheme £000	Deferred PRT £000	Deferred CT £000	Total £000
As at 1 January 2001	116,817	2,996	450	4,394	674,524	49,816	848,997
Revisions	(34,414)	-	-	-	-	-	(34,414)
Profit and loss charge	2,390	1,050	263	289	73,053	25,487	102,532
Utilised in the year	-	-	-	(144)	(237,187)	-	(237,331)
As at 31 December 2001	<u>84,793</u>	<u>4,046</u>	<u>713</u>	<u>4,539</u>	<u>510,390</u>	<u>75,303</u>	<u>679,784</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 2011 and 2014. The revision in the year is due to a reduction in the estimate for gas field abandonment costs. The profit and loss charge includes £2,390,000 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 2001) and the option price of shares being purchased by employees through the Centrica plc sharesave scheme spread over the remaining life of the scheme.

Deferred PRT (petroleum revenue tax)

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

12 Provisions for liabilities and charges (continued)

Deferred CT (corporation tax)

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

Movement on the deferred corporation tax provision/(asset) in the year is analysed below:

	As at 1 January 2001	Profit and loss charge/ (credit)	As at 31 December 2001
	£000	£'000	£'000
Deferred corporation tax			
- accelerated capital allowances	288,450	(32,933)	255,517
- deferred PRT	(202,357)	49,240	(153,117)
- other timing differences	(36,277)	9,180	(27,097)
	<u>49,816</u>	<u>25,487</u>	<u>75,303</u>

Deferred corporation tax provision/(asset) at 30% (2000: 30%) is analysed as follows: -

	Provided		Unprovided	
	As at 31 December		As at 31 December	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Deferred corporation tax				
- accelerated capital allowances	255,517	288,450	-	-
- deferred PRT	(153,117)	(202,357)	-	-
- other timing differences	(27,097)	(36,277)	(228)	(228)
	<u>75,303</u>	<u>49,816</u>	<u>(228)</u>	<u>(228)</u>

13 Called up share capital

	As at 31 December 2001 & 2000 £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 Share capital and reserves

	Share Capital £000	Share Premium £000	Profit & Loss Account £000	Total £000
As at 1 January 2001	800,000	447,162	137,623	1,384,785
Retained profit for the year	-	-	698,192	698,192
As at 31 December 2001	<u>800,000</u>	<u>447,162</u>	<u>835,815</u>	<u>2,082,977</u>

15 Reconciliation of movements in shareholders' funds

	2001 £000	2000 £000
Profit on ordinary activities after tax for the year	698,192	403,231
Dividends	-	(1,050,000)
Net movement in shareholders' funds for the year	698,192	(646,769)
Shareholders' funds as at 1 January	1,384,785	2,031,554
Shareholders' funds as at 31 December	<u>2,082,977</u>	<u>1,384,785</u>

16 Pensions – Disclosures in accordance with FRS 17

The majority of the Company's UK employees as at 31 December 2001 were members of two of the four main schemes in the Centrica plc Group; the Centrica Staff Pension Scheme and the Centrica Engineers Pension Scheme.

These schemes have been treated as defined benefit schemes and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS17, these schemes have been treated for disclosure purposes as defined contribution schemes. The aggregate contributions to the schemes during the year were £526,398. The amount outstanding at the balance sheet date was £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 £250 million (£176 million net of deferred tax). Further details of this valuation can be found in the annual report of Centrica plc.

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

17 Acquisitions

On 21 December 2001, the Company purchased 35.5% interest in Block 110/3c (the Bains field), comprising 31.2% from Kerr McGee North Sea (U.K.) Limited and 4.3% from Burlington Resources (Irish Sea) Limited for a total consideration of £2.9million. The Company already has a 17.3% interest in the Bains field, which is located in the East Irish Sea. The entire consideration represents fair value of fixed assets purchased.

18 Commitments and contingencies

a) Capital Expenditure

Contracted future capital expenditure, as at 31 December 2001 was £3,502,000 (2000: £21,089,000).

b) Operating lease commitments

As at 31 December 2001 commitments for the following year under operating leases for Land and Buildings were as follows:

	2001 £000	2000 £000
Expiring after five years	<u>577</u>	<u>594</u>

c) Abandonment costs

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

d) Guarantee

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

Hydrocarbon Resources Limited

NOTES TO THE ACCOUNTS (continued)

19 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.

20 Post Balance Sheet Events

In the Chancellor's April 2002 budget, it was announced that the corporation tax on profits from "ring-fenced" offshore production would increase from 30% to 40%. This higher rate will result in an increase in the deferred tax provision of approximately £25 million.