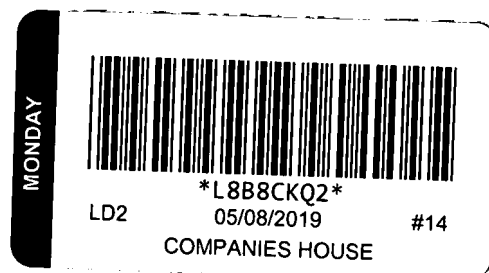


Registration number: 03141243

# British Gas Services Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018



## **British Gas Services Limited**

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## **British Gas Services Limited**

### **Strategic Report for the Year Ended 31 December 2018**

The Directors present their Strategic Report for British Gas Services Limited ('BGSL' or 'the Company') for the year ended 31 December 2018.

#### **Principal activities**

BGSL is authorised by the Financial Conduct Authority ('FCA') to carry out insurance distribution activities.

The Company also provides claims fulfilment and claims handling services.

#### **Review of the business**

The Company is party to a services agreement with British Gas Insurance Limited ('BGIL'), a company authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and FCA. Under the terms of the services agreement BGSL introduces business to the insurer and provides other support services including collection of insurance premiums from customers, for which it earns commission.

#### *Results and performance*

The results of the Company are set out on pages 13 and 14. Operating profit for the year ended 31 December 2018 was £26.6m (2017: £90.7m) after exceptional expenses of £49.0m (2017: £12.1m) following the Group's strategic review relating principally to transformation and consultancy costs.

Profit before income tax was £83.7m (2017: £144.1m) including finance income of £57.2m (2017: £53.5m).

Profit for the year after tax was £64.7m (2017: £122.7m). After net actuarial gains on defined benefit pension schemes of £373.3m (2017: £98.5m) total comprehensive income for the year was £438.0m (2017: £221.2m). The gains arise principally from changes to assumptions underlying the present value of scheme liabilities.

The statement of financial position on pages 15 to 16 shows total equity at 31 December 2018 of £1,198.8m (2017: £769.3m).

The number of breakdowns and the resulting revenue tends to be correlated with the severity of UK winter weather. Colder weather incidents during the year resulted in more boiler and central heating claims.

The impact of Brexit is expected to be very limited as the Company does not export products and services to EU countries nor does it have a material exposure to currency or interest rate risks. The Company is carefully managing its inventory of parts required to repair domestic appliances to mitigate the potential effects of a no-deal Brexit and ensure its contractual obligations will be met.

## British Gas Services Limited

### Strategic Report for the Year Ended 31 December 2018 (continued)

#### Key performance indicators (KPIs)

The Company's key performance indicators are:

	2018	2017
Policies in force at 31 December ('000)	7,512	7,469
Number of reportable customer complaints ('000)	222	175
Employee lost time incidents (number)	78	56
Profit before taxation (£m)	84	144

Key performance indicators are monitored against plan and forecast throughout the year. In addition, the business monitors on a regular basis a number of other operational metrics including service delivery and customer standards.

Policies in force represent individual policies of cover taken out by customers. The number of policies in force increased by 0.5% to 7,512,000 at 31 December 2018 (2017: 7,469,000). A reduction in gas appliance cover policies was more than offset by improvements in home electrical and plumbing and drains products.

The increase in complaints reported to the FCA reflects an exceptionally high number of central heating boiler breakdowns due to cold weather in the first quarter of 2018 ('Beast from the East'), with peak breakdowns more than twice the normal weekly rate. Appointments were rescheduled to clear the backlog and complaints returned closer to the levels of previous years in the second half of 2018.

The number of employee work related injuries reduced from 174 in 2017 to 157 in 2018 and a lost time incident ('LTI') is a work related injury that results in more than one day away from work. LTIs increased as a result of extended time offered to employees to fully recover from their injuries.

#### Principal risks and uncertainties

##### *Risk management*

The Company has a robust risk management system in place to identify, measure, monitor, manage and report on the risks to its business strategy and delivery of its objectives, as part of a 'three lines of defence' governance model. This ensures appropriate segregation of risk, ownership, oversight and assurance responsibilities. The three lines are as follows:

1st Line: The Company's 1st line of defence is led by the Chief Executive who is supported by the Executive Committee and the senior leadership team. The 1st line teams are required to identify, assess, manage and report on the risk profile on a current and forward-looking basis. Sound risk management tools, practices and knowledge facilitate informed decision-making in accordance with the Enterprise Risk Management Framework and in particular the risk appetite.

2nd Line: Risk and Compliance functions are accountable for providing an independent and forward looking assessment of the Company's risk profile to the Board, as well as providing the necessary oversight and challenge to the 1st line.

3rd Line: Internal audit is accountable for wholly independent assurance on the adequacy and effectiveness of risk management and control.

## **British Gas Services Limited**

### **Strategic Report for the Year Ended 31 December 2018 (continued)**

#### **Principal risks and uncertainties (continued)**

Risks are recorded in the Company's risk register and rated in terms of impact on the business and probability of occurrence and an appropriate executive management owner is assigned to each risk. The risk review process includes identification of emerging risks and assessment of the effectiveness of mitigation controls. Regular monitoring is carried out by the executive management team and non-executive Directors.

The Company has in place an effective and proportionate risk committee governance structure and escalation path which ensures that any material changes in the risk profile are identified on a timely basis and actioned as appropriate. In particular, there is a Risk Committee chaired by a non-executive Director which facilitates the formal reporting and escalation of key matters that require the Board's attention. The Committee reviews first line performance in relation to financial, operational and conduct risk while the Board has responsibility for strategic matters relating to conduct.

The principal risks to the Company are as follows:

#### **Strategic risks**

Management and the Board recognise that the Company operates in a competitive environment and changes in external markets and the actions of competitors can impact future profitability and growth. Management maintains robust business planning processes to respond to changes in the environment and the Board regularly considers the appropriateness of Company strategy and objectives. The Risk Committee has a framework that identifies emerging risks and regularly conducts stress and scenario testing to identify key external and internal risks that could threaten the organisation's business model sustainability.

#### **Operational risks**

The Company has a dedicated transformation governance programme in place to mitigate risks associated with implementing the Group strategic review. Stress scenarios in relation to strategic and operational risks are regularly modelled to assess the Company's ability to respond effectively to a range of potential adverse impacts. These are reviewed by management, Risk Committee and the Board. The following are the Company's principal operational risks:

##### *Extreme weather*

BGSL provides a number of services to customers where failure to deliver effectively may pose a risk to business objectives with heightened exposure during extended periods of cold weather, when customer demand is high. Such failure could also have regulatory and conduct implications.

The loss of telephony support at multiple call centres simultaneously could adversely impact the Company's ability to deliver its objectives. BGSL has many years of experience in handling extremes of weather and contingency arrangements are in place with respect to operational risks arising from cold weather.

## **British Gas Services Limited**

### **Strategic Report for the Year Ended 31 December 2018 (continued)**

#### **Principal risks and uncertainties (continued)**

##### *Cyber crime and Information Systems security*

Cyber crime and the loss of customer data could have a potentially significant operational impact. A number of information security practices are in place across the organisation consisting of 'people, process and technology' initiatives to mitigate the risks. These are underpinned by security technologies and secure configurations including firewalls, encryption, secure file transfers and cyber intelligence.

Information system security and performance are a priority concern due to the evolving nature of security threats from the external environment and the support environment for legacy systems. New capabilities are being introduced to counter such threats including technology enhancements and initiatives for employee education and awareness.

Incidents are well monitored and treated through an internal incident management programme and no material security breaches have been recorded.

##### *Availability of engineer workforce*

The Company maintains a well controlled and effective relationship with trade unions during pensions and pay negotiations to mitigate against the risk of industrial action.

#### **Regulatory and Conduct risks**

The Company is subject to applicable UK laws and regulations and is also regulated by the FCA in relation to the sale of insurance products and other intermediation activities. Failure to comply with legal and regulatory obligations would expose the Company to potential fines, enforcement action and reputational damage.

The Company has established clear business principles and supporting systems, processes, reporting and oversight activities to ensure that legal and regulatory obligations are met. In addition, the Company strives to maintain a positive and open relationship with the FCA and participates in responses to requests for information addressed to the insurance intermediary sector.

Board oversight of conduct matters is carried out through UK Home, Customer Operations and Field Operations committees at which management review conduct performance against a range of agreed metrics.

#### **Pensions risk**

The Group continues to monitor its pension liabilities on an ongoing basis, including assessing various scenarios that may arise and their potential implications for the business. The next UK Registered Pension Schemes triennial review will be based on the position at 31 March 2018. The Group is committed to additional annual cash contributions to fund the pensions and this funding is provided through asset-backed contribution arrangements.

## **British Gas Services Limited**

### **Strategic Report for the Year Ended 31 December 2018 (continued)**

#### **Financial risk management**

The Company carries out a variety of risk monitoring and risk mitigation activities including an evaluation of exposure to financial risks:

##### *Price risk*

The Company receives contractually agreed amounts for claims fulfilment and handling in respect of insurance products. These contractual arrangements reduce the volatility of these sources of income.

##### *Counterparty default and credit risk*

Exposure to counterparty default and credit risk is managed within risk appetite parameters set by the Directors. Exposure to counterparty risk relates principally to balances receivable from other Group companies including a contractual right to offset premiums payable to BGIL against commission, claims fulfilment and claims handling receivables. Customers' creditworthiness is normally assessed before commencing to trade and from time to time while the business relationship continues.

##### *Liquidity risk*

BGSL has substantial balances receivable from other Group undertakings, all repayable on demand. In connection with costs incurred on fulfilling and handling claims and providing other support services to BGIL, contractual arrangements between the two companies include reimbursement within one month.

##### *Interest rate risk*

BGSL has interest bearing assets in the form of amounts owed by Group undertakings which earn rates of interest determined by Centrica treasury that are linked to the Group cost of funds. Asset carrying values are not susceptible to changes in market rates of interest. The Company has no interest bearing liabilities.

##### *Cash flow risk*

Cash inflows and outflows are managed through the bank pooling facilities operated by Centrica and are used to meet the Company's day to day cash requirements. Centrica plc is the Company's ultimate parent undertaking and has confirmed its intention to provide support to the Company to enable it to meet its liabilities as they fall due.

##### *Currency risk*

The Company only conducts business in the UK and all revenues and costs are denominated in sterling. All assets and liabilities have an underlying sterling currency base. Consequently the Company has no exposure to fluctuations in foreign currency rates of exchange.

## **British Gas Services Limited**

### **Strategic Report for the Year Ended 31 December 2018 (continued)**

#### **Future developments**

Following recent Centrica group restructuring initiatives, we are well positioned to compete and deliver for our customers. We will place increasing emphasis on developing and delivering new products and services for our customers and turn our eyes more to growth in a complex world. We will continue to concentrate on: high standards of safety, compliance and conduct; customer satisfaction and operational excellence; cost efficiency and simplification; investment in our people.

The Company is committed to the linked goals of customer service and shareholder value. Innovation is key to our marketing efforts and the application of our skills and service networks to meet the growing consumer demand for energy efficient technology remain at the heart of our ambitions.

In the first half of 2019, the Company announced and began to implement a restructuring programme impacting front and back office operations which will provide a more efficient interface with customers going forward. Changes to defined benefit pension schemes have also been implemented. These exceptional items will cost an estimated £144m before taxation, to the benefit of longer term value and future operating profits.

Approved by the Board on 22 July 2019 and signed on its behalf by:



*Samantha Hood*

By order of the Board for and on behalf of Centrica Secretaries Limited  
**Company Secretary**

Company registered in England and Wales, No. 03141243

Registered office:  
Millstream  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD



## **British Gas Services Limited**

### **Directors' Report for the Year Ended 31 December 2018**

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

Information relating to financial risk management and future developments has been disclosed in the Strategic Report on pages 5 and 6.

#### **Directors of the Company**

The Directors who held office during the year and up to the date of signing the financial statements were:

M J Bateman (Managing Director, UK Field Operations)  
A H Bowe (Non-Executive, appointed 2 January 2019)  
E M Catchpole (Non-Executive, appointed 2 January 2019)  
D J Hindley (Non-Executive, appointed 20 February 2019)  
C L McLeod (Chief Financial Officer, appointed 20 February 2019)  
R A Phipps (Non-Executive Chairman, appointed 29 August 2018)  
S Sambhi (Chief Executive)  
S R Vann (Non-Executive, appointed 29 January 2019)

J Castagno (resigned 30 June 2019)  
J E Dale (resigned 31 December 2018)  
I E Ronald (resigned 3 April 2019)  
C J Stern (resigned 30 September 2018)  
A M Todd (resigned 28 March 2018)  
D T M Young (resigned 31 December 2018)

#### **Results and dividends**

The results of the Company are set out on page 13. Profit after tax for the financial year ended 31 December 2018 was £64.7m (2017: £122.7m). No interim dividend was paid in 2018 (2017: nil) and no final dividend is recommended (2017: nil).

#### **Objectives and policies**

BGSL is the largest domestic central heating and gas appliance service company in the UK and is authorised and regulated by the FCA to carry out insurance distribution activities. In 2018, the Company continued to carry out activities only in the UK, primarily in the private residential sector.

The Company is subject to a number of policies applied by Centrica across the Group, including business principles, good repute and health and safety. Other policies are designed to meet the Company's specific requirements including those in relation to marketing and customer communications, dividends and capital management.

#### **Research and development**

During 2018, the Company's projects to develop business software continued according to plan.

#### **Going concern**

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue.

## **British Gas Services Limited**

### **Directors' Report for the Year Ended 31 December 2018 (continued)**

#### **Employees**

The disclosures relating to the costs and number of employees in note 5 include all Group employees who carry out work for the Company. Not all of these employees have service contracts with BGSL but may have contracts of service with other Group companies. The Directors believe that the disclosures given on this basis are the fairest representation of the cost and number of people working for the Company. During 2018, the average employee headcount was 9,464, all working in the United Kingdom (2017: 10,168).

Management strives to make the Company a rewarding place in which to work and has continued to focus on skills development and employee engagement. Continuous learning and development is essential to ensure employees have the opportunity to fulfil their potential, have the skills to support business growth and implement the Group strategy.

The Company is committed to regular communication and consultation with employees through briefings, meetings, emails, information screens, face to face meetings with senior management and a Group-wide intranet. The Company seeks to create an environment in which employees are fully engaged with business objectives.

The Company fosters an inclusive and diverse workplace and is committed to equal opportunity. Discrimination against any group is not tolerated. Full and fair consideration is given to applications for employment made by disabled people. If an employee becomes disabled, appropriate support, retraining, equipment and facilities are offered wherever possible to help them stay with the Company. In addition, policies are in place to help ensure there are fair promotion opportunities for disabled employees. The Group's employee networks for carers, women, disability, ethnicity, veterans and LGBT+, provide a body the Group can engage with to help ensure people can thrive.

Safety is another of the Group's core priorities, continuing to build on its safety culture through strong leadership and on-going programmes to raise awareness and reinforce a positive and proactive safety culture. Safety metrics are reported regularly to senior management and there is a continued focus on improvement.

The Company's business principles and policies set out standards of behaviour expected of its employees in conducting business in an ethical way. The Group to which BGSL belongs encourages employee share ownership by operating tax authority-approved share schemes open to all eligible employees, including executive directors.

In response to the UK's Modern Slavery Act, the Group has put in place a detailed action plan to monitor and reduce the risk of forced or compulsory labour in the business and supply chain through initiatives such as training and on-the-ground ethical site inspections.

#### **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. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

## **British Gas Services Limited**

### **Directors' Report for the Year Ended 31 December 2018 (continued)**

#### **Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). 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, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

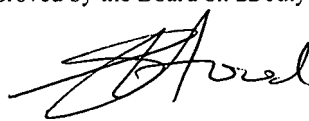
#### **Disclosure of information to auditors**

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all 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**

In accordance with Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

Approved by the Board on 22 July 2019 and signed on its behalf by:



Sumanth Hood

By order of the Board for and on behalf of Centrica Secretaries Limited  
**Company Secretary**

Company registered in England and Wales, No. 03141243  
Registered office:  
Millstream  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD

## **British Gas Services Limited**

### **Independent Auditor's Report to the Members of British Gas Services Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion, the financial statements of British Gas Services Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 ('FRS 101'); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions related to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

## **British Gas Services Limited**

### **Independent Auditor's Report to the Members of British Gas Services Limited (continued)**

#### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

#### **Responsibilities of Directors**

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Report on other legal and regulatory requirements**

##### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

## **British Gas Services Limited**

### **Independent Auditor's Report to the Members of British Gas Services Limited (continued)**

#### **Matters on which we are required to report by exception**


Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

#### **Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

  
.....  
Adam Addis, ACA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom

22 July 2019

## British Gas Services Limited

### Income Statement for the Year Ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	3	1,049,570	1,048,195
Cost of sales	4	<u>(663,472)</u>	<u>(662,910)</u>
Gross profit		386,098	385,285
Operating costs	4	(310,581)	(282,479)
Exceptional items	6	<u>(48,966)</u>	<u>(12,145)</u>
<b>Operating profit</b>		26,551	90,661
Finance income	7	<u>57,160</u>	<u>53,479</u>
<b>Profit before income tax</b>		83,711	144,140
Income tax expense	9	<u>(19,012)</u>	<u>(21,453)</u>
<b>Profit for the year</b>		<u><u>64,699</u></u>	<u><u>122,687</u></u>

The above results were derived from continuing operations.

The notes on pages 18 to 40 form an integral part of these financial statements.

**British Gas Services Limited**

**Statement of Comprehensive Income for the Year Ended 31 December 2018**

	Note	2018 £'000	2017 £'000
Profit for the year		<u>64,699</u>	<u>122,687</u>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Net actuarial gains on defined benefit pension schemes	17	449,746	118,705
Taxation on net actuarial gains on defined benefit pension schemes	9	<u>(76,457)</u>	<u>(20,180)</u>
Other comprehensive income net of taxation		<u>373,289</u>	<u>98,525</u>
<b>Total comprehensive income for the year</b>		<u><u>437,988</u></u>	<u><u>221,212</u></u>

The notes on pages 18 to 40 form an integral part of these financial statements.



# British Gas Services Limited

## Statement of Financial Position as at 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Non-current assets</b>			
Property, plant and equipment	10	20,399	26,109
Intangible assets	11	48,892	51,444
Investments in subsidiaries	12	150	150
Trade and other receivables, and contract related assets	13	1,114	-
Retirement benefit assets	17	348,867	73,849
Deferred tax assets	9	-	27,061
		<u>419,422</u>	<u>178,613</u>
<b>Current assets</b>			
Trade and other receivables, and contract related assets <sup>i</sup>	13	938,287	863,418
Inventories	14	<u>38,378</u>	<u>39,183</u>
		<u>976,665</u>	<u>902,601</u>
<b>Total assets</b>		<u>1,396,087</u>	<u>1,081,214</u>
<b>Current liabilities</b>			
Trade and other payables <sup>i</sup>	15	(142,819)	(161,699)
Provisions for other liabilities and charges	16	<u>(3,916)</u>	<u>(413)</u>
		<u>(146,735)</u>	<u>(162,112)</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	9	(50,329)	-
Provisions for other liabilities and charges	16	(175)	(578)
Retirement benefit obligations	17	<u>-</u>	<u>(149,257)</u>
		<u>(50,504)</u>	<u>(149,835)</u>
<b>Total liabilities</b>		<u>(197,239)</u>	<u>(311,947)</u>
<b>Net assets</b>		<u>1,198,848</u>	<u>769,267</u>

(i) Insurance broking assets and liabilities for 2017 previously presented gross in 'Trade and other receivables, and contract related assets' and 'Trade and other payables' have been presented net to align with 2018 reporting.

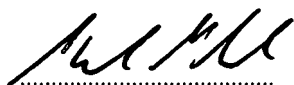
The notes on pages 18 to 40 form an integral part of these financial statements.

**British Gas Services Limited**

**Statement of Financial Position as at 31 December 2018 (continued)**

	Note	2018 £'000	2017 £'000
<b>Equity</b>			
Share capital	18	5,000	5,000
Share premium	18	700,000	700,000
Retained earnings		879,512	814,813
Actuarial gains & losses reserve		(445,870)	(819,159)
Other reserves		60,206	68,613
<b>Total equity</b>		<u>1,198,848</u>	<u>769,267</u>

The financial statements on pages 13 to 40 were approved and authorised for issue by the Board of Directors on 22 July 2019 and signed on its behalf by:



.....  
C L McLeod  
Director  
Company number 03141243

# British Gas Services Limited

## Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £'000	Share premium £'000	Retained earnings £'000	Actuarial reserve £'000	Other reserves £'000	Total £'000
At 1 January 2018	5,000	700,000	814,813	(819,159)	68,613	769,267
Profit for the year	-	-	64,699	-	-	64,699
Other comprehensive income	-	-	-	373,289	-	373,289
Total comprehensive income	-	-	64,699	373,289	-	437,988
Equity settled share based payments	-	-	-	-	6,529	6,529
Exercise of awards	-	-	-	-	(14,936)	(14,936)
At 31 December 2018	5,000	700,000	879,512	(445,870)	60,206	1,198,848

	Share capital £'000	Share premium £'000	Retained earnings £'000	Actuarial reserve £'000	Other reserves £'000	Total £'000
At 1 January 2017	5,000	700,000	692,126	(917,684)	65,501	544,943
Profit for the year	-	-	122,687	-	-	122,687
Other comprehensive income	-	-	-	98,525	-	98,525
Total comprehensive income	-	-	122,687	98,525	-	221,212
Equity settled share based payments	-	-	-	-	6,214	6,214
Exercise of awards	-	-	-	-	(2,918)	(2,918)
Deferred tax on share based payments	-	-	-	-	(184)	(184)
At 31 December 2017	5,000	700,000	814,813	(819,159)	68,613	769,267

The notes on pages 18 to 40 form an integral part of these financial statements.

## **British Gas Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **1 General information**

British Gas Services Limited ('the Company') is a private company limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales. The registered office and principal place of business is: Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 6.

#### **2 Accounting policies**

##### **Basis of preparation**

The Company's financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). In preparing these financial statements the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- the requirements of IAS 7 'Statement of Cash Flows';
- the statement of compliance with Adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- prior year reconciliations for property, plant and equipment and intangible assets;
- the prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related party transactions with wholly-owned subsidiaries in a group;
- disclosures in respect of the compensation of key management personnel; and
- disclosures in respect of capital management.

As the consolidated financial statements of the Centrica plc group ('the Group'), which are available from its registered office, include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures' have not been provided apart from those which are relevant for the financial instruments which are held at fair value.

From 1 January 2018, the following standards are effective in the Company's financial statements. Their first time adoption did not have a material impact on the financial statements:

- IFRS 9: 'Financial Instruments'
- IFRS 15: 'Revenue from contracts with customers'

The impact of adoption of these standards and the key changes to the accounting policies are disclosed below.

##### **Exemption from preparing group accounts**

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate controlling company, Centrica plc.

## **British Gas Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **IFRS 9: 'Financial Instruments'**

The Company adopted IFRS 9: 'Financial Instruments' from 1 January 2018. In accordance with the transition provisions in the Standard, comparatives have not been restated.

##### *Classification of financial assets*

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets - amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI).

##### *Impairment*

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Company's financial assets and loan commitments.

A sophisticated provision matrix approach is already applied to establish impairment provisions and the inclusion of specific expected credit loss considerations did not have a material impact on adoption of IFRS 9.

##### **IFRS 15: 'Revenue from contracts with customers'**

The Company adopted IFRS 15: 'Revenue from contracts with customers' from 1 January 2018. The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15, resulting in no adjustments to amounts previously recognised in the financial statements.

Further details are provided in the section on 'Revenue recognition'.

##### **Measurement convention**

The financial statements have been prepared on the historical cost basis except for: investments in subsidiaries that have been recognised at deemed cost on transition to FRS 101, available for sale financial assets, financial instruments designated at fair value through profit or loss on initial recognition and the Company's share of the assets of the Group's defined benefit pension schemes that have been measured at fair values; the Company's share of the liabilities of the Group's defined benefit pension schemes that have been measured using the projected unit credit valuation method.

The financial statements are presented in pounds sterling (with all values rounded to the nearest thousand pounds (£'000) except when otherwise indicated), which is also the functional currency of the Company. Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the policy on foreign currency transactions on page 21.

##### **Going concern**

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, currently intends to support the Company to ensure it can meet its obligations as they fall due, provided the Company remains a member of the Group. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised for issue.

##### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

## **British Gas Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **Revenue recognition**

Revenue includes fixed fee income from fulfilling and handling claims on behalf of British Gas Insurance Limited ('BGIL'). The fixed fees are agreed in advance by both parties for each type of claim fulfilled and handled and revenue is recognised when the services have been fully provided.

The Company acts as an insurance intermediary providing a combination of placement and post-placement services. Commission is earned net of discounts and allowances and is recognised as revenue to match the incidence of costs to provide the services which are incurred over the life of the insurance contracts. Commission is repaid on a pro-rated basis if a customer cancels a contract mid-term.

Revenue from profit commission is recognised in the period in which it is earned.

Amounts paid by customers in advance of service provision are treated as deferred income, with any amount in arrears recognised as accrued income. For one-off services, such as on-demand activities, revenue is recognised at the date of service provision.

##### **Cost of sales**

Cost of sales includes direct and contract labour relating to breakdowns and service visits, related overheads and materials consumed.

##### **Employee share schemes**

The Centrica plc group, to which the Company belongs, has a number of employee share schemes, detailed in the Remuneration Report in note S2 to the Group financial statements, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis in the Income Statement together with a corresponding increase in equity over the vesting period, based on the Centrica plc group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes detailed in note S2 of the Group financial statements.

##### **Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset or assets. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Payments under operating leases are charged to the Income Statement on a straight-line basis over the term of the relevant lease.

##### **Exceptional items**

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. To ensure the business performance reflects the underlying results of the Company, these exceptional items are disclosed separately in the Income Statement. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges and asset write-downs/impairments.

## **British Gas Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **Foreign currencies**

Transactions in foreign currencies are, on initial recognition, recorded in the functional currency of the Company at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency of the Company at the rates prevailing at the reporting date, and associated gains and losses are recognised in the Income Statement for the year.

##### **Taxation**

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in equity. In this case, the tax is recognised in equity.

Deferred tax is recognised in respect of all temporary differences identified at the reporting date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if impairment of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the future and there is sufficient taxable profit available against which the temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement using tax rates that have been enacted or substantively enacted at the reporting date.

##### **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include application software and assets under construction, the accounting policies for which are dealt with separately below. For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly-attributable labour and directly-attributable overheads.

Capitalisation begins when expenditure for the asset is being incurred and activities necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Amortisation commences at the point of commercial deployment. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful lives and are tested for impairment annually, otherwise they are assessed for impairment whenever there is an indication that the intangible asset could be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 2 Accounting policies (continued)

##### Amortisation of intangible assets

Intangible assets are subject to amortisation so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Application software	Straight line, up to 15 years

##### Property, plant and equipment ('PP&E')

PP&E is included in the Statement of Financial Position at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

##### Depreciation

Depreciation is charged so as to write off the cost of assets, other than assets under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Plant	Straight line, between 5 and 20 years
Equipment and vehicles	Straight line, between 3 and 10 years

The carrying values of PP&E are tested annually for impairment and are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and if necessary changes are accounted for prospectively.

##### Assets under construction

Assets under construction represent the cost of purchasing, commissioning, constructing and installing certain intangible assets or tangible assets ahead of their productive use. When the asset is brought into use, the associated cost is transferred to the relevant asset class, and the asset will begin to be amortised or depreciated on a straight-line basis over its useful economic life.

##### Investments in subsidiaries

Fixed asset investments in subsidiaries are held at deemed cost on transition to FRS 101 and in accordance with IAS 27, less any provision for impairment as necessary.

##### Inventories

Inventories are valued at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items.



## **British Gas Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. Where discounting is used, the increase in the provision due to the passage of time is recognised in the Income Statement within interest expense.

##### **Pensions and other post employment benefits**

The Company's employees participate in a number of the Group's defined benefit pension schemes. The total Group cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in note 22 to the Group financial statements. The Company's share of the total Group surplus or deficit at the end of the reporting period for each scheme is calculated in proportion to the Company's share of ordinary employer contributions into that scheme during the year; ordinary employer contributions are determined by the pensionable pay of the Company's employees within the scheme and the cash contribution rates set by the scheme trustees. Current service cost is calculated with reference to the pensionable pay of the Company's employees. The Company's share of the total Group interest on scheme liabilities, expected return on scheme assets and actuarial gains or losses is calculated in proportion to ordinary employer contributions in the prior accounting period. Changes in the surplus or deficit arising as a result of the changes in the Company's share of total ordinary employer contributions are also treated as actuarial gains or losses.

Payments to defined contribution retirement benefit schemes are recognised in the Company's Income Statement as they fall due.

##### **Impairment of non-financial assets**

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

##### **Financial assets and liabilities**

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

##### **(a) Trade and other receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are initially recognised at fair value, which is usually the original invoice amount and are subsequently held at amortised cost using the effective interest method (although in practice the discounting is often immaterial) less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less receivables are classified as current assets. If not they are presented as non-current assets.

## **British Gas Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **(b) Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are initially recognised at fair value, which is usually the original invoice amount and are subsequently held at amortised cost using the effective interest method (although, in practice, the discount is often immaterial). If payment is due within one year or less, payables are classified as current liabilities. If not, they are presented as non-current liabilities.

##### **(c) Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received.

##### **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

##### **Critical judgements in applying the Company's accounting policies**

The following are critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

##### *Intangible assets*

The Company has several material items of in-house developed application software that are assessed for impairment at each reporting date. The Company makes judgements and estimates in considering whether the carrying amounts and residual useful life reflect the expected future use of these assets.

##### **Key sources of estimation uncertainty**

The key source of estimation uncertainty at the reporting date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is:

##### *Pensions and other post-employment benefits*

The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Company's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 3 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	<b>2018</b>	2017
	<b>£'000</b>	£'000
Services, claims handling and other revenue	533,956	499,415
Insurance intermediary commission	432,265	468,934
Revenue from warranty and other contracts	42,492	39,959
On demand revenue	40,857	39,887
	<u>1,049,570</u>	<u>1,048,195</u>

Services, claims handling and other revenue comprises principally income from BGIL for claims fulfilment and claims handling activities. The revenue increase in 2018 largely reflects the impact of new contractual rates agreed with BGIL which also reduced insurance commission.

All revenue arose from activities in the United Kingdom.

# British Gas Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

### 4 Analysis of costs by nature

	2018		
	Cost of sales	Other operating costs	Total costs
	£'000	£'000	£'000
Employee costs	386,514	128,593	515,107
Materials	83,246	-	83,246
Contractor, consultancy, other professional services	124,568	46,009	170,577
Advertising and marketing	5,800	28,523	34,323
Depreciation and amortisation	-	22,163	22,163
Operating leases	38,929	2,744	41,673
Other costs	24,415	82,549	106,964
	<u>663,472</u>	<u>310,581</u>	<u>974,053</u>

	2017*		
	Cost of sales	Other operating costs	Total costs
	£'000	£'000	£'000
Employee costs	395,254	120,751	516,005
Materials*	87,015	-	87,015
Contractor, consultancy, other professional services*	102,807	36,061	138,868
Advertising and marketing*	7,073	29,759	36,832
Depreciation and amortisation	-	21,228	21,228
Operating leases*	37,730	2,811	40,541
Other costs*	33,031	71,869	104,900
	<u>662,910</u>	<u>282,479</u>	<u>945,389</u>

\*Comparatives have been re-stated to better align with 2018 presentation of costs across the categories.

# British Gas Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

### 5 Employee costs

Aggregate employee costs (including directors' remuneration) were as follows:

	2018 £'000	2017 £'000
Wages and salaries	370,768	376,289
Social security costs	41,755	39,997
Pension and other post-employment benefit costs	96,056	93,505
Share-based payment expenses	6,528	6,214
	<u>515,107</u>	<u>516,005</u>

Employee costs represent amounts charged to the Company and are included in note 4 analysis of costs by nature.

Pension and other post-employment benefit costs of £96.1m (2017: £93.5m) represent costs attributable to employees of the Company for defined benefit ('DB') and defined contribution ('DC') pension schemes.

Note 17 shows:

(a) Current service and past service costs of £119.9m (2017: £105.4m) for DB schemes.

(b) Costs of £5.0m (2017: £3.0m) charged to the income statement for DC schemes.

The difference between the costs reported in note 17 and the amount attributable to employees of the Company represents recharges by BGSL to other Group companies.

In respect of Directors' remuneration, refer to note 22 'related party transactions'.

The average employee headcount during the year (including directors) was as follows:

	2018 No. of employees	2017 No. of employees (restated)
Field engineers	6,547	7,025
Administration and support	2,917	3,143
	<u>9,464</u>	<u>10,168</u>

The previously reported 2017 full time equivalent (FTE) total of 9,951 has been restated as 10,168 on a headcount basis.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 6 Exceptional items

The following exceptional items were recognised in arriving at operating profit:

	2018 £'000	2017 £'000
Restructuring and business change costs	34,653	12,024
Past service cost on defined benefit pension schemes	14,363	-
(Loss)/gain on disposal	(50)	121
	<u>48,966</u>	<u>12,145</u>

Following announcement of the Group's cost efficiency programme, the Company has incurred restructuring costs principally relating to redundancy, data migration, digitisation of the customer journey, business closures and other transformational activity.

#### 7 Finance income

	2018 £'000	2017 £'000
Interest income from amounts owed by group undertakings	49,878	47,940
Net interest income on pension scheme assets and liabilities	7,282	5,539
	<u>57,160</u>	<u>53,479</u>

Interest income on amounts owed by Group undertakings reflects interest rates determined quarterly by Centrica treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.80% and 4.13% per annum during 2018 (2017: 3.66% and 3.86%).

#### 8 Auditor's remuneration

The Company paid an amount of £120,000 (2017: £120,000) to its auditor in respect of the audit of the financial statements.

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the Group financial statements of its ultimate parent, Centrica plc.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 9 Income tax

Tax charged/(credited) in the income statement

	2018 £'000	2017 £'000
<b>Current taxation</b>		
UK corporation tax at 19.00% (2017: 19.25%)	18,723	(36,846)
UK corporation tax adjustment to prior periods	(644)	(2,956)
	<u>18,079</u>	<u>(39,802)</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences - UK	(1,067)	66,737
Arising from changes in tax rates and laws	1,284	(8,529)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	716	3,047
Total deferred taxation	<u>933</u>	<u>61,255</u>
Tax expense in the income statement	<u>19,012</u>	<u>21,453</u>

The Company earns its profits in the UK. These activities are subject to the standard rate for UK corporation tax, which from 1 April 2018 was 19.00% (2017: 19.25%).

The differences between the taxes shown above and the amounts calculated by applying the standard rate of UK corporation tax to the profit before tax are reconciled below:

	2018 £'000	2017 £'000
Profit before tax	<u>83,711</u>	<u>144,140</u>
Tax expense at standard UK rate of 19.00% (2017: 19.25%)	15,905	27,742
<b>Effects of:</b>		
Net expenses non-deductible for tax purposes	895	615
Adjustment for prior periods	72	91
Effect of tax rate changes	1,284	(8,529)
Deferred tax movement - share based payments	865	1,572
Deferred tax movement - Pensions	(9)	(38)
Total income tax expense	<u>19,012</u>	<u>21,453</u>

# British Gas Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

### 9 Income tax (continued)

The main rate of corporation tax for the year to 31 December 2018 was 19% (2017: 19.25%). The corporation tax rate will reduce to 17% with effect from 1 April 2020. The deferred tax assets and liabilities included in these financial statements are based on tax rates having regard to their reversal profiles.

#### Deferred tax

The movements in respect of the deferred income tax assets/(liabilities) that occurred during the financial year are as follows:

	Accelerated tax depreciation (corporation tax) £'000	Other timing differences including losses carried forward £'000	Retirement benefit obligation and other provisions £'000	Total £'000
<b>1 January 2018</b>	3,217	1,177	22,667	27,061
Credited/(charged) to the income statement	307	(128)	(1,112)	(933)
Charged to other comprehensive income	-	-	(76,457)	(76,457)
<b>31 December 2018</b>	<u>3,524</u>	<u>1,049</u>	<u>(54,902)</u>	<u>(50,329)</u>
 1 January 2017	 3,099	 9,542	 96,039	 108,680
Credited/(charged) to the income statement	118	(8,181)	(53,192)	(61,255)
Charged to other comprehensive income	-	-	(20,180)	(20,180)
Charged to equity	-	(184)	-	(184)
<b>31 December 2017</b>	<u>3,217</u>	<u>1,177</u>	<u>22,667</u>	<u>27,061</u>



# British Gas Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

### 10 Property, plant and equipment

	Plant, equipment and vehicles £'000	Assets under construction £'000	Total £'000
<b>Cost or valuation</b>			
At 1 January 2018	42,980	4,175	47,155
Additions	1,154	1,499	2,653
Transfers	631	(644)	(13)
Retirement	(7,261)	(1,708)	(8,969)
At 31 December 2018	37,504	3,322	40,826
<b>Depreciation</b>			
At 1 January 2018	21,046	-	21,046
Charge for the year	6,279	-	6,279
Retirement	(6,898)	-	(6,898)
At 31 December 2018	20,427	-	20,427
<b>Carrying amount</b>			
At 31 December 2018	17,077	3,322	20,399
At 31 December 2017	21,934	4,175	26,109

Retirement for assets under construction relate to costs, capitalised in prior periods for a vendor that had entered into administration after the reporting date.

The retirement of assets during the year is the result of identifying fully depreciated assets no longer providing services to the Company and their removal from the assets register. Included in retirements are disposals of motor vehicles with a cost of £2.9m (2017: £4.8m) and accumulated depreciation of £2.5m (2017: £3.3m).

# British Gas Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

### 11 Intangible assets

	Internally generated software development costs £'000	Assets under construction £'000	Total £'000
<b>Cost or valuation</b>			
At 1 January 2018	89,665	13,237	102,902
Additions	-	13,319	13,319
Transfers	13,633	(13,620)	13
At 31 December 2018	103,298	12,936	116,234
<b>Amortisation</b>			
At 1 January 2018	51,458	-	51,458
Amortisation charge	15,884	-	15,884
At 31 December 2018	67,342	-	67,342
<b>Carrying amount</b>			
At 31 December 2018	35,956	12,936	48,892
At 31 December 2017	38,207	13,237	51,444

Development costs have been capitalised in accordance with IAS 38 *Intangible Assets* and are therefore not treated, for dividend purposes, as a realised loss.

### 12 Investments in subsidiaries

*Investments classified as non-current*

	£'000
<b>Shares in group undertakings (subsidiaries)</b>	
At 1 January 2018	150
At 31 December 2018	150

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 12 Investments in subsidiaries (continued)

Details of the equity interests of the Company in its subsidiary undertakings are as follows as at 31 December 2018:

Name of subsidiary	Principal activity	Country of incorporation	Principal place of business	Proportion of ownership interest and voting rights held
Dyno Rod Limited	Plumbing and drainage services	UK	Millstream Maidenhead Road Windsor Berkshire SL4 5GD	100% £1.00 Ordinary shares

#### 13 Trade and other receivables, and contract related assets

	2018		2017	
	Current £'000	Non-current £'000	Current £'000	Non-current £'000
Amounts owed by group undertakings	907,419	-	837,233	-
Prepayments	26,763	-	25,748	-
Other receivables	3,548	-	437	-
Contract related assets	557	1,114	-	-
	<u>938,287</u>	<u>1,114</u>	<u>863,418</u>	<u>-</u>

Insurance broking assets of £539.5m and liabilities of £522.2m reported in 2017 have been restated above to show as a net amount of £17.3m receivable from British Gas Insurance Limited and included within amounts owed by group undertakings.

Included within amounts owed by group undertakings are receivables from Centrica plc that bear interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.80% and 4.13% per annum during 2018 (2017: 3.66% and 3.86%). All amounts owed by group undertakings are unsecured and repayable on demand.

#### 14 Inventories

	2018 £'000	2017 £'000
Raw materials and consumables	<u>38,378</u>	<u>39,183</u>

There is no significant difference between the replacement cost of inventories and their carrying amounts.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 15 Trade and other payables

	2018 £'000	2017 £'000
Trade payables	70,309	82,872
Accrued expenses	30,413	46,510
Amounts owed to group undertakings	20,711	20,388
Social security and other taxes	12,203	6,986
Bank overdraft	9,183	4,943
	<u>142,819</u>	<u>161,699</u>

All amounts owed to Group undertakings are unsecured and repayable on demand.

Insurance broking assets of £539.5m and liabilities of £522.2m reported in 2017 have been restated to show as a net amount of £17.3m receivable from British Gas Insurance Limited and included within amounts owed by group undertakings in Note 13.

The bank overdraft represents items in the process of being cleared by the bank. Centrica plc's treasury department pools funds daily and via intercompany accounts resets the Company's balance at the bank to nil. Interest charges payable on the bank overdraft during the year are borne by the ultimate parent undertaking. There is no material difference between the fair value of the Company's borrowing and its book value.

#### 16 Provisions for other liabilities and charges

	Restructuring £'000	Employee benefits £'000	Total £'000
At 1 January 2018	413	578	991
Charged to the income statement	35,011	29	35,040
Unused provision reversed	(358)	-	(358)
Provisions used	(29,971)	(432)	(30,403)
Transfer to pensions	(1,179)	-	(1,179)
At 31 December 2018	<u>3,916</u>	<u>175</u>	<u>4,091</u>

##### Restructuring

The provision predominantly relates to cost reduction programmes. Utilisation is expected within one year.

##### Employee benefits

The provision represents the Company's national insurance charges expected to arise at exercise dates on employee share schemes. The provision is expected to be utilised when the employee share schemes are exercised.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 17 Post-employment benefits

##### Defined benefit pension schemes

The Company's employees participate in the following defined benefit pension schemes: Centrica Pension Plan (CPP), Centrica Pension Scheme (CPS) and Centrica Engineers Pension Scheme (CEPS). Its employees also participate in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in note 22 of the Centrica plc 2018 Annual Report and Accounts ('Group Financial Statements').

The CPP, CPS and CEPS form the majority of the Company's defined benefit obligation and are referred to below and in the Group Financial Statements as the 'Registered Pension Schemes'.

For further information of critical accounting judgements and key sources of estimation uncertainty in relation to pensions please refer to notes 3 and 22 in the Group Financial Statements.

##### Accounting assumptions, risks and sensitivity analysis

The accounting assumptions, risks and sensitivity analysis for the Registered Pension Schemes are provided in note 22 to the Group Financial Statements.

##### Reconciliation of scheme assets and liabilities

The amounts recognised in the statement of financial position are as follows:

	<b>2018</b>			<b>2017</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Total</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>1 January</b>	4,916,400	(4,991,808)	(75,408)	4,515,673	(4,999,813)	(484,140)
<b>Items included in the profit and loss account:</b>						
Current service cost	-	(105,501)	(105,501)	-	(105,426)	(105,426)
Past service cost	-	(14,363)	(14,363)	-	-	-
Interest income/(expense)	135,546	(128,264)	7,282	140,822	(135,283)	5,539
<b>Other movements:</b>						
Re-measurement (losses)/gains	(24,383)	474,129	449,746	(22,324)	141,029	118,705
Employer contributions <sup>i</sup>	88,339	-	88,339	421,656	-	421,656
Plan participants contributions	1,488	(1,488)	-	1,434	(1,434)	-
Benefits paid from schemes	(142,624)	142,624	-	(140,861)	140,861	-
Transfers from provisions for other liabilities and charges <sup>ii</sup>	-	(1,228)	(1,228)	-	(31,742)	(31,742)
<b>31 December</b>	<b>4,974,766</b>	<b>(4,625,899)</b>	<b>348,867</b>	<b>4,916,400</b>	<b>(4,991,808)</b>	<b>(75,408)</b>

(i) Employer contributions of £88.3m (2017: £421.7m) included no asset backed contributions (2017: £335.8m).

(ii) The transfer from provisions comprises a £1.179m transfer reported in Note 16 from BGSL and £0.049m from British Gas New Heating Limited.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 17 Post-employment benefits (continued)

Presented in the Statement of Financial Position as:

	2018 £'000	2017 £'000
Retirement benefit assets	348,867	73,849
Retirement benefit obligations	-	(149,257)
	<u>348,867</u>	<u>(75,408)</u>

#### Analysis of the actuarial gains/(losses) recognised in reserves

	2018 £'000	2017 £'000
Actuarial loss (actual return less expected return on pension scheme assets)	(30,794)	(22,324)
Experience loss arising on scheme liabilities	(6,298)	(19,253)
Changes in assumptions underlying the present value of the schemes' liabilities	<u>486,838</u>	<u>160,282</u>
Actuarial gains recognised in reserves before adjustment for taxation	449,746	118,705
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	<u>(986,936)</u>	<u>(1,105,641)</u>
<b>Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation</b>	<u>(537,190)</u>	<u>(986,936)</u>

#### Pension scheme contributions

Note 22 to the Group Financial Statements 2018 provides details of the triennial review based on the position at 31 March 2015 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements set up in 2012, 2013 and 2016. Under IAS 19: 'Retirement benefits' (revised 2011), the Company's contribution and trustee interest in the Scottish limited partnerships are recognised as scheme assets.

The Company estimates that it will pay £64.0m of employer contributions during 2019 at an average rate of 24.1% of pensionable pay together with contribution via the salary sacrifice arrangement of £19.6m.

Although the Group has established a new funding arrangement in the year based on the position as at 31 March 2015, it should be noted that the market rates, from which the discount rate is derived, have continued to decline in the subsequent period. The Group continues to monitor its pension liabilities on an ongoing basis, including assessing various scenarios that may arise and their potential implications for the business.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 17 Post-employment benefits (continued)

Marginal adjustments to the assumptions used to calculate the pension liability, or significant swings in bond yields or stock markets, can have a large impact in absolute terms on the net assets of the Company. Reasonably possible changes as at 31 December to one of the actuarial assumptions would have affected the scheme liabilities as set out below:

		2018 Indicative effect on scheme liabilities %		2017 Indicative effect on scheme liabilities %
	Increase/decrease in assumption		Increase/decrease in assumption	
Rate of increase in employee earnings subject to 2% cap	0.25%	+/-0	0.25%	+/-0
Rate of increase in pensions in payment and deferred pensions	0.25%	+/-5	0.25%	+/-5
Discount rate	0.25%	-/+6	0.25%	-/+6
Inflation assumption	0.25%	+/-5	0.25%	+/-5
Longevity assumption	1 year	+/-3	1 year	+/-3

The indicative effects on scheme liabilities have been calculated by changing each assumption in isolation and assessing the impact on liabilities. For reasonably possible change in the inflation assumption, it has been assumed that a change to the inflation assumption would lead to corresponding changes in the assumed rates of increase in uncapped pensionable pay, pensions in payment and deferred pensions.

#### Pension scheme assets

The major categories of scheme assets are as follows:

	2018 £m	2017 £m
Liability matching assets	2,575	2,615
Equities	2,342	2,392
High yield debt	1,955	1,730
Corporate bonds	1,118	1,276
Asset-backed contribution assets	802	864
Property	395	369
Cash pending investment	102	3
Group pension scheme assets	<u>9,289</u>	<u>9,249</u>
Company share of the above	<u>4,975</u>	<u>4,916</u>

#### Defined contribution pension schemes

The total cost charged to the income statement of £5.0m (2017: £3.0m) represents contributions payable to these schemes by the Company at rates specified in the rules of the schemes.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 18 Capital and reserves

	2018 £'000	2017 £'000
<b>Allotted and fully paid share capital of the Company</b>		
5,000,003 ordinary shares of £1 each (2017: 5,000,003)	<u>5,000</u>	<u>5,000</u>

The Company has only one class of ordinary shares, which carries no rights to fixed income.

#### Share premium

On 30 August 2016, GB Gas Holdings Limited subscribed in cash for one new ordinary share of £1 plus £700m of share premium.

#### 19 Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. The Company participates in six employee share schemes which gave rise to a charge of £6.5m (2017: £6.2m). The fair value of employee share options is the market value of the shares at the award date. The major schemes are described below.

#### On Track Incentive Plan (OTIP)

Awards under the OTIP are available to senior executives, senior and middle management. The number of shares awarded is dependent on annual targets for individual targets and business unit financial performance. These shares vest subject to continued employment within the Group in two stages: half after two years, the other half after three years. Leaving prior to the vesting date will normally mean forfeiting rights to the invested share awards.

The fair value of services received in return for share awards granted are measured by reference to the fair value of share awards granted.

#### Share Incentive Plan (SIP)

SIP is available to all employees, who may purchase 'partnership shares' through monthly salary deductions. The Group then awards one matching share for every two partnership shares purchased, up to a maximum of 22 matching shares per employee per month and these share awards have a 3 year vesting period. Both partnership shares and matching shares are held in trust. Partnership shares may be withdrawn at any time; however matching shares are forfeited if the related partnership shares are withdrawn within the vesting period.

#### Sharesave

Under Sharesave, the Group Board may grant options over shares in Centrica plc to all 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 and/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 six months after maturity. Exercise of options is subject to continued employment within the Group except where permitted by the rules of the scheme.



# British Gas Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

### 19 Share-based payments (continued)

The fair value of employee share options is measured using the Black-Scholes model. Details of the Sharesave options are given below.

	Weighted average share price 2018 £	Number of options 2018 No.	Weighted average share price 2017 £	Number of options 2017 No.
Outstanding at the beginning of the year	1.91	32,839,628	1.98	42,035,264
Exercised during the year	1.14	(2,200)	1.95	(305,085)
Granted during the year	1.14	18,002,974	1.81	7,427,811
Lapsed during the year	1.90	(17,461,177)	2.05	(16,318,362)
Outstanding at the end of the year	1.50	33,379,225	1.91	32,839,628

The options outstanding at the year-end have a weighted average contractual life of 2 years (2017: 2 years).

### Monte-Carlo input parameters (awards granted in period)

	2018	2017
Weighted average life of the share options (years)	3.51	3.00
Share price (£)	1.42	2.26
Exercise price (£)	1.14	1.81
Expected volatility (%)	25.82	23.50
Expected dividends (%)	7.08	5.50
Risk free rate of interest (%)	0.90	0.20

### 20 Dividends paid and proposed

No dividends were paid or proposed for the year ended 31 December 2018 (2017: nil).

### 21 Operating leases

#### Leases as lessee

At the balance sheet date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Within one year	14,221	18,350
In two to five years	28,645	35,864
	<u>42,866</u>	<u>54,214</u>

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 22 Related party transactions

##### Directors' remuneration

Fees allocated to the Company for services provided by non-executive Directors during the year were £234,533 (2017: £433,049 including remuneration for employees who had specific functions as Directors of the Company).

The Directors of the Company who are also its employees are remunerated as employees of the Centrica plc group and not for services to the Company. Accordingly, no details in respect of their emoluments have been included in these financial statements.

The Directors' remuneration for the year was as follows:

	2018 £'000	2017 £'000
Aggregate emoluments paid to Directors in respect to their qualifying services	235	426
Contributions to pension schemes	-	7
	<u>235</u>	<u>433</u>

Remuneration of the highest paid Director:

	2018 £'000	2017 £'000
Aggregate emoluments	<u>71</u>	<u>146</u>

#### 23 Parent and ultimate parent undertaking

The immediate parent undertaking is GB Gas Holdings 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 only company to include these financial statements in its consolidated financial statements. Copies of the Centrica plc consolidated financial statements may be obtained from [www.centrica.com](http://www.centrica.com). The financial statements can also be obtained from the following address: Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD which is the registered address of Centrica plc.

#### 24 Events after the balance sheet date

In the first half of 2019, the Company announced and began to implement a restructuring programme impacting front and back office operations which will provide a more efficient interface with customers going forward. Changes to defined benefit pension schemes have also been implemented. These exceptional items will cost an estimated £144m before taxation, to the benefit of longer term value and future operating profits.