

Registration number: 03141243

British Gas Services Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019



British Gas Services Limited

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British Gas Services Limited

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report for British Gas Services Limited ("BGSL" or "the Company") for the year ended 31 December 2019.

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.

Section 172(1) statement

Section 172(1) of the Companies Act 2006 provides that the Directors of a company must act in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to various other stakeholder interests - below are the six key factors:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

In discharging their Section 172 duties the Directors have regard to the factors set out above. They also have regard to other factors which they consider relevant to the decision being made. Those factors, for example, include the interests and views of relationships with regulators. The Directors remain conscious of the impact their decisions can have on other stakeholders. Sometimes the Directors have to take decisions that adversely affect one or more stakeholder groups. In these cases, the Directors endeavour to treat those impacted fairly.

Day-to-day authority is delegated to executives and the Directors engage with management in setting, approving and overseeing execution of the business strategy and related policies. Board meetings are held periodically where the Directors consider the Company's activities and make decisions. At Board meetings the Directors review financial and operational performance, business strategy, key risks, stakeholder-related matters, and governance, legal and regulatory compliance, for example, the FCA governance framework including, and specifically, the new Senior Managers and Certification Regime ("SM&CR"). This is done by consideration and discussion of reports sent in advance of each Board meeting and through presentations to the Board.

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.

Stakeholder engagement

Proactive engagement remains a central focus for Centrica plc group ("the Group") and the Company, which ensures the Directors have regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006. Further information on the Group's stakeholder engagement can be found on pages 16 and 17 of the Group's Annual Report and Accounts 2019. Engaging with stakeholders delivers better outcomes for our society, and for business and is fundamental to the Company's long-term success.

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Results and performance

The results of the Company are set out on pages 15 and 16.

Operating profit excluding exceptional items was £150.7m (2018: £75.5m).

Profit before income tax was £257.1m (2018: £83.7m) after an exceptional credit of £28.1m (2018: exceptional expense £49.0m) and finance income of £78.3m (2018: £57.2m).

Exceptional items comprise business transformation costs of £154.0m (2018: £34.6m), a past service credit in respect of defined benefit pension schemes of £182.2m (2018: past service cost £14.4m) and other costs of £0.1m (2018: nil).

The business transformation activity represents a continuation of the Group's cost efficiency programme. The Company has recognised restructuring costs principally related to redundancy (excluding pension strains), change resource, consultancy and other transformational activity, including member compensation payments from renegotiating the UK defined benefit pension arrangements to update contribution rates, salary caps and benefits, in the first half of 2019.

Profit for the year after tax was £213.5m (2018: £64.7m) and total comprehensive income was £35.3m (2018: £438.0m) after a net actuarial loss on defined benefit pension schemes of £178.3m (2018: actuarial gain £373.3m).

Revenue reduced by 3.1% from £1,049.6m to £1,017.3m, due to lower numbers of claims fulfilled for BGIL as a result of milder winter weather than in the previous year.

The statement of financial position on pages 17 to 18 shows total equity at 31 December 2019 of £1,237.0m (2018: £1,198.8m).

Key performance indicators (KPIs)

The Company's key performance indicators are:

	2019	2018
Policies in force at 31 December ('000)	7,876	7,512
Number of reportable customer complaints ('000)	185	222
Profit before taxation (£m)	257	84

Key performance indicators are monitored against plan and forecast regularly throughout the year. The business also monitors other operational metrics including the quality of service delivery to customers and the health and safety of employees and customers.

Policies in force represent customer contracts, principally where the Company carries out insurance distribution activities on behalf of BGIL. The number of policies in force increased by 4.8% to 7,876,000 at 31 December 2019 (2018: 7,512,000) including additional warranty and home insurance contracts.

Complaints fell year on year by 17%. In part this was because 2018 included an adverse impact related to cold weather in Q1 ('Beast from the East') but also due to management focus on improving underlying performance. The total volume of complaints recorded continues to be driven by customer inconvenience associated with rescheduled appointments.

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

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:

First Line: The Company's first line of defence is led by the Chief Executive who is supported by the Executive Committee and the senior leadership team. The first 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.

Second 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 first line.

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

During 2019 the governance framework was further strengthened through common membership of BGIL and BGSL Boards and a joint risk committee to more effectively oversee risk matters for both entities.

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 performance in relation to financial, operational and conduct risk while the Board has responsibility for strategic matters relating to conduct.

Risks are recorded in the Company's risk register and rated in terms of impact on the business and probability of occurrence. 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 reported to the Risk Committee and Board.

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 business environment and the Board regularly considers the appropriateness of the Company's 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.

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

Operational risks

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.

Business transformation

The Company has a dedicated transformation governance programme in place to mitigate risks associated with implementing the Group's 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, the Risk Committee and the Board.

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 have been 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 seeks to maintain a good relationship and engagement with the engineer workforce and trade union representatives to facilitate efficient business operations and scheduling of interactions with customers.

Impact of severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) outbreak and coronavirus disease (COVID-19) pandemic

On 11 March 2020 the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. Following UK Government measures in response to the pandemic the Group became subject to a significant change in business environment, as well as implementing a number of material operational changes, in order to continue to serve and support its customers.

The Company is focused first on looking after the health and safety of employees and customers. This has included following advice from the government and relevant health organisations during the lockdown period. While non-essential customer visits are currently stopped to minimise contact, our service engineers continue to support core activities including emergencies where a customer has no heating or hot water. We are also providing additional support where needed for our vulnerable customers.

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

Operational risks (continued)

Impact of severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) outbreak and coronavirus disease (COVID-19) pandemic (continued)

The Company's operational resilience is supported by Centrica's Global Crisis Management team, which is operating a Pandemic Management Framework supported by existing business continuity plans. Current activity is centred around enabling and protecting BGSL's call centre agents and field engineers with significantly increased home working capabilities for non-field staff avoiding major disruption to business support. The Company's executive team meets frequently to review response plans and assess the latest government policy and guidance. There is also regular engagement with the BGSL Board as well as industry regulators. While the situation is continually evolving, risks are being monitored and the business remains focused on ensuring continuity of service while supporting customers and employees.

The full impact of the pandemic on the Company is uncertain but the Directors are confident that the measures taken put the Company in a strong position to manage the resultant economic challenges.

The events described above arose after the Company's balance sheet date, and therefore there is no impact on the results or financial position of the Company at 31 December 2019. The Company is supported by Centrica plc, which has signed a letter providing support to the Company for a period of 12 months from the date the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company. For more information refer to the Going Concern section of the Directors' Report on page 9.

Brexit

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. Economists have suggested that a failure to agree a satisfactory trade deal could lead to lower base interest rates and higher inflation, following a likely weakening of sterling against other currencies. Macroeconomic impacts on existing trade receivable recoverability are expected to be immaterial. 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.

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.

Management 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. Oversight of conduct by the Board is carried out through the Board Risk Committee, while the Management Conduct and Risk Committee operates at the executive management level.

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Pensions risk

Centrica continues to monitor the Group's pension liabilities on an ongoing basis, including assessing various scenarios that may arise and their potential implications for the business. The most recent actuarial valuation at 31 March 2018 was finalised with the Pension Trustees during the year which reported a technical provisions' deficit. The Company made a funding contribution of £78.5m towards this technical provisions' deficit in 2019. Defined benefit pension schemes had a net IAS 19 surplus of £360.4m at 31 December 2019 (2018: £348.9m).

During the year, a pension liability hedging programme was undertaken to hedge for interest rate and inflationary movements on the pension deficit. The Trustees also took a further step to de-risk assets by reducing equity holdings and increasing credit assets.

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.

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 and liquidity 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.

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 and 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.

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Future developments (continued)

During 2019, the Company has been implementing a restructure 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 initiatives will provide long-term value and contribute to future operating profits.

Approved by the Board on 18 June 2020 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 2019

The Directors present their report and the audited financial statements for the year ended 31 December 2019.

Information relating to Brexit, 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)
M D Kirwan (Managing Director, UK Home, appointed 13 September 2019)
C L McLeod (Chief Financial Officer, appointed 20 February 2019)
R A Phipps (Non-Executive Chairman)
S R Vann (Non-Executive, appointed 29 January 2019)

J Castagno (resigned 30 June 2019)
I E Ronald (resigned 3 April 2019)
S Sambhi (resigned 13 September 2019)
A L Tavaziva (appointed 22 November 2019; resigned 10 June 2020)

Corporate governance

Wates Principles

The Wates Principles are a set of corporate governance principles developed in 2018 at the request of the UK Government by a coalition group of industry bodies and wider interest groups chaired by Sir James Wates CBE. The Wates Principles provide a high-level, flexible governance code for large privately held companies to adopt, comprising six short-form principles and associated guidance which the Company fully supports.

The Company has developed a clear purpose over several years and uses its core strengths to generate sustainable value for the business. The Board combines the experience of non-executive Directors with senior management to drive business strategy and Board membership is regularly refreshed. A well-defined committee structure is in place with clear definitions of roles and responsibilities of members who are supported by expert advice from relevant business specialists.

Processes for the recruitment and remuneration of the Company's Directors, senior managers and other employees operate within the Group's systems and controls, taking into account pay and conditions of the wider Group workforce and matters such as gender pay gap.

The Strategic Report describes the Company's risk management systems, principal risks and risk appetite which together help the Board make appropriate choices when assessing business opportunities.

The Board seeks to engage with the Company's stakeholders including its workforce and understands that meeting the needs of customers is critical to long-term success. The impact the Company has on external factors such as the environment is also an important driver of business strategy.

Results and dividends

The results of the Company are set out on page 15. Profit after tax for the financial year ended 31 December 2019 was £213.5m (2018: £64.7m). No interim dividend was paid in 2019 (2018: nil) and no final dividend is recommended (2018: nil).

British Gas Services Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

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 2019, 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 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 2019, the Company continued to develop business software to further improve its interactions with customers.

Going concern

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, 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 are authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

There are a range of future potential financial impacts upon the Group as a result of the COVID-19 pandemic, including increasing levels of bad debt, reduced energy consumption from business customers, and the lockdown restricting the ability to carry out non-essential work in customers' homes and premises.

The Centrica group has substantial liquidity available to mitigate these adverse impacts and has also taken quick action to preserve cash as announced in the trading statement on 2 April 2020. Centrica's trading statement announced that its final 2019 dividend was cancelled, plans have been made to reduce cash expenditure by around £400m and management bonus payments have been paused. The Centrica plc Board remains committed to maintaining a strong balance sheet. Moody's confirmed a Baa2 (stable) credit rating on 13 March 2020 and S&P confirmed a BBB (stable) credit rating on 31 March 2020.

The Directors also recognise the importance to the Company of its relationship with BGIL. They are satisfied that the additional stress tests carried out by BGIL on the impact of COVID-19 provide assurance it will continue as a going concern and will meet its regulatory solvency capital obligations with adequate liquidity.

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 2019, the average employee headcount was 8,863 all working in the UK (2018: 9,464).

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 Group strategy.

British Gas Services Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

Employees (continued)

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 2015, 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.

Employee engagement

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 Board acknowledges that employee engagement is critical to our success. During 2019, the Group began the work to embed the role of Employee Champion as an integral part of Centrica's governance framework. Using the output from employee discussions in 2018, the Group formalised the Employee Champion role in written terms of reference to ensure that its purpose was clear, it was well supported by Centrica, and there were mechanisms in place for reporting and feedback. Further information on employee engagement can be found on page 67 of the Group's Annual Report and Accounts 2019. Centrica's Employee Champion seeks to create an environment where each employee can reach their full potential and be at their best, and we can retain and develop the best talent to continue to deliver for our stakeholders.

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.

Events after the reporting period

Information relating to events after the reporting period is detailed in note 24.

British Gas Services Limited

Directors' Report for the Year Ended 31 December 2019 (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.

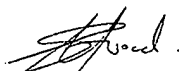
Disclosure of information to auditors

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 18 June 2020 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

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 2019 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. 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

18 June 2020

British Gas Services Limited

Income Statement for the Year Ended 31 December 2019

	Note	2019 £'000	2018 £'000
Revenue	3	1,017,346	1,049,570
Cost of sales	4	<u>(587,140)</u>	<u>(663,472)</u>
Gross profit		430,206	386,098
Operating costs	4	(279,538)	(310,581)
Exceptional items	6	<u>28,100</u>	<u>(48,966)</u>
Operating profit		178,768	26,551
Net finance income	7	<u>78,294</u>	<u>57,160</u>
Profit before income tax		257,062	83,711
Income tax expense	9	<u>(43,544)</u>	<u>(19,012)</u>
Profit for the year		<u>213,518</u>	<u>64,699</u>

The above results were derived from continuing operations.

British Gas Services Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £'000	2018 £'000
Profit for the year		<u>213,518</u>	<u>64,699</u>
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Net actuarial (loss)/gain on defined benefit pension schemes	18	(214,775)	449,746
Taxation on net actuarial (loss)/gain on defined benefit pension schemes	9	<u>36,512</u>	<u>(76,457)</u>
Other comprehensive (expense)/income net of taxation		<u>(178,263)</u>	<u>373,289</u>
Total comprehensive income for the year		<u><u>35,255</u></u>	<u><u>437,988</u></u>

The notes on pages 20 to 44 form an integral part of these financial statements.

British Gas Services Limited

Statement of Financial Position as at 31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	10	74,124	20,399
Intangible assets	11	64,613	48,892
Investments in subsidiaries	12	150	150
Trade and other receivables, and contract related assets	13	2,318	1,114
Retirement benefit assets	18	360,413	348,867
		<u>501,618</u>	<u>419,422</u>
Current assets			
Trade and other receivables, and contract related assets	13	482,093	938,287
Inventories	14	44,583	38,378
Cash and cash equivalents	13	469,999	-
		<u>996,675</u>	<u>976,665</u>
Total assets		<u>1,498,293</u>	<u>1,396,087</u>
Current liabilities			
Trade and other payables	15	(141,542)	(142,819)
Lease liabilities	16	(21,337)	-
Current tax liabilities	9	(3,872)	-
Provisions for other liabilities and charges	17	(7,297)	(3,916)
		<u>(174,048)</u>	<u>(146,735)</u>
Non-current liabilities			
Deferred tax liabilities	9	(56,571)	(50,329)
Provisions for other liabilities and charges	17	(6,105)	(175)
Lease liabilities	16	(24,532)	-
		<u>(87,208)</u>	<u>(50,504)</u>
Total liabilities		<u>(261,256)</u>	<u>(197,239)</u>
Net assets		<u>1,237,037</u>	<u>1,198,848</u>

The notes on pages 20 to 44 form an integral part of these financial statements.

British Gas Services Limited

Statement of Financial Position as at 31 December 2019 (continued)

	Note	2019 £'000	2018 £'000
Equity			
Share capital	19	5,000	5,000
Share premium	19	700,000	700,000
Retained earnings		1,093,030	879,512
Actuarial gains & losses reserve		(624,133)	(445,870)
Other reserves		63,140	60,206
Total equity		<u>1,237,037</u>	<u>1,198,848</u>

The financial statements on pages 15 to 44 were approved and authorised for issue by the Board of Directors on 18 June 2020 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 2019

	Share capital £'000	Share premium £'000	Retained earnings £'000	Actuarial reserve £'000	Other reserves £'000	Total £'000
At 1 January 2019	5,000	700,000	879,512	(445,870)	60,206	1,198,848
Profit for the year	-	-	213,518	-	-	213,518
Other comprehensive income	-	-	-	(178,263)	-	(178,263)
Total comprehensive income	-	-	213,518	(178,263)	-	35,255
Equity settled share based payments	-	-	-	-	5,268	5,268
Exercise of awards	-	-	-	-	(2,334)	(2,334)
At 31 December 2019	5,000	700,000	1,093,030	(624,133)	63,140	1,237,037

	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

The notes on pages 20 to 44 form an integral part of these financial statements.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

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 7.

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 2019, the following standards and amendments are effective in the Company's Financial Statements:

- IFRS 16 'Leases'

The impact of adoption of this standard and the key changes to the accounting policies are disclosed below.

The following standards and amendments became effective in the Company's financial statements and did not have a material impact:

- Amendment to IFRS 9 'Financial instruments';
- Amendments to IAS 28 'Investments in associates';
- Amendments to IAS 19 'Employee benefits';
- Annual improvements 2015-2017 cycle; and
- IFRIC 23 'Uncertainty over income tax treatments'.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Basis of preparation (continued)

The following standards and amendments will be effective from 1 January 2020 unless otherwise stated. Their adoption is not expected to have a material impact on the Company's financial statements:

- IFRS 17 'Insurance contracts' expected to be effective 1 January 2023;
- Amendment to IFRS 3 'Business combinations' (not yet endorsed); and
- Amendments to IFRS 9, IAS 39 and IFRS 7 relating to interest rate benchmark reform.

Going concern

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, 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 are authorised for issue and that amounts owed to Group undertakings will not be required to be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

There are a range of future potential financial impacts upon the Group as a result of the COVID-19 pandemic, including increasing levels of bad debt, reduced energy consumption from business customers, and the lockdown restricting the ability to carry out non-essential work in customers' homes and premises.

The Centrica group has substantial liquidity available to mitigate these adverse impacts and has also taken quick action to preserve cash as announced in the trading statement on 2 April 2020. Centrica's trading statement announced that its final 2019 dividend was cancelled, plans have been made to reduce cash expenditure by around £400m and management bonus payments have been paused. The Centrica plc Board remains committed to maintaining a strong balance sheet. Moody's confirmed a Baa2 (stable) credit rating on 13 March 2020 and S&P confirmed a BBB (stable) credit rating on 31 March 2020.

The Directors also recognise the importance to the Company of its relationship with BGIL. They are satisfied that the additional stress tests carried out by BGIL on the impact of COVID-19 provide assurance it will continue as a going concern and will meet its regulatory solvency capital obligations with adequate liquidity.

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.

IFRS 16 'Leases'

The Company adopted IFRS 16 'Leases' from 1 January 2019. Adoption represents a significant change in accounting for lease arrangements in which the Company is a lessee, as the standard mandates the on-balance sheet recognition of all lease liabilities and a corresponding right-of-use asset. In accordance with the transition provisions of IFRS 16, for contracts entered into before 1 January 2019, the requirements of the standard have been applied only to contracts previously identified as leases in accordance with IAS 17 'Leases' or IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. For contracts entered into or changed after that date the definition of a lease in IFRS 16 has been applied. On application of IFRS 16 comparative information has not been restated.

The Company has utilised the recognition exemptions for short-term leases that have a lease term of 12 months or less and for leases of low value assets (underlying asset value less than £5,000), including IT equipment. The lease payments associated with those leases are recognised as an expense on a straight-line basis over the lease term. The Company has also applied wherever applicable the following transition allowances:

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

IFRS 16 'Leases' (continued)

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessment of whether leases are onerous in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' immediately before the date of initial application as an alternative to performing an impairment review;
- election not to apply the measurement requirements of the standard to leases where the term ends within 12 months of the date of initial application; and
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

On transition, the Company measured lease liabilities for leases previously assessed as operating at the present value of the remaining lease payments and elected to measure the associated right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. For arrangements previously assessed as finance leases, the asset and liability balances at 31 December 2018 were carried forward as the opening IFRS 16 balances and subsequently measured in accordance with the new standard.

Application resulted in the recognition of total lease liabilities and right-of-use assets on 1 January 2019 of £70.7m. Right-of-use assets comprise motor vehicles and are presented in property, plant and equipment in the statement of financial position.

A reconciliation of the operating lease commitment at 31 December 2018 to the opening IFRS 16 lease liability is shown below, along with a summary of the key judgments applied by the Company in determining these opening positions:

	£000
Operating lease commitment at 31 December 2018	42,866
Operating lease commitment of other group companies at 31 December 2018	21,195
Lease prepayments at 31 December 2018	12,338
Effect of discounting	(5,674)
IFRS 16 lease liability at 1 January 2019	<u>70,725</u>

The weighted average incremental borrowing rate used by the Company for IFRS 16 is 1.3%.

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 24.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

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.

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 has four performance obligations in its contract with BGIL:

- Mediation placement activities relating to the initial set-up of an insurance contract: delivered at a point in time as contracts are established.
- Mediation post-placement and other support and management services: including ongoing delivery of infrastructure, receipts collection, complaints handling, head office activities, delivered over the duration of the contract.
- Claims handling service: delivered at a point in time as claims arise.
- Claims fulfilment service: delivered at a point in time as claims arise.

The Company considers the majority of costs incurred to obtain and fulfil contracts are not directly attributable to individual insurance policies and therefore are not earned to match the recognition of revenue.

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 Group to which the Company belongs has a number of employee share schemes 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 Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

Details of the different schemes, including how fair value is measured for each scheme, that the Company participates in are provided in note 20.

When the options are exercised the Company is recharged the option's original fair value as of the grant date from Centrica plc. This recharge is treated as a deduction from equity.

Leases

Definition of a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Leases (continued)

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not yet paid at the commencement date, discounting using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise: fixed payments (including in-substance fixed payments) and amounts expected to be payable under a residual value guarantee although the Company does not expect to exercise the payment option.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use of asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company recognises the lease payments associated with short-term leases (leases expiring within twelve months from commencement) and leases of low value assets (underlying asset value less than £5,000) on a straight-line basis over the lease term.

In the comparative period leases were classified as finance leases whenever the terms of the lease transferred substantially all the risks and rewards of ownership to the lessee. All other leases were classified as operating leases.

The Company had no finance leases in the comparative period. Payments under operating leases were 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 2019 (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.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Intangible assets (continued)

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

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	Straight line, between 3 and 10 years
Right of use assets	Straight line, lease duration

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 'Separate Financial Statements', 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. Each item is valued on the basis of a weighted average formula.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (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 2019 (continued)

2 Accounting policies (continued)

Financial assets and liabilities (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 2019 (continued)

3 Revenue

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

	2019 £'000	2018 £'000
Services, claims handling and other revenue	475,476	533,956
Insurance intermediary commission	464,614	432,265
Revenue from warranty and other contracts	41,377	42,492
On demand revenue	35,879	40,857
	<u>1,017,346</u>	<u>1,049,570</u>

Services, claims handling and other revenue comprises principally income from BGIL for claims fulfilment and claims handling activities. The revenue decrease in 2019 reflects lower claims frequency due to milder winter weather and the impact of new contractual arrangements agreed with BGIL which was also the main contributor to increased insurance intermediary commission.

All revenue arose from activities in the UK.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

4 Analysis of costs by nature

	Cost of sales £'000	2019 Other operating costs £'000	Total costs £'000
Employee costs	339,785	134,256	474,041
Materials	68,254	-	68,254
Contractor, consultancy, other professional services	114,669	11,486	126,155
Advertising and marketing	-	22,653	22,653
Depreciation and amortisation	17,432	28,750	46,182
Other costs	47,000	82,393	129,393
	<u>587,140</u>	<u>279,538</u>	<u>866,678</u>

	Cost of sales £'000	2018 Other operating costs £'000	Total costs £'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>

Due to implementation of IFRS 16 for the 2019 reporting period the Company does not expense vehicle operating lease payments; instead a "right of use" asset is created that is depreciated.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

5 Employee costs

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

	2019 £'000	2018 £'000
Wages and salaries	346,672	370,768
Social security costs	44,525	41,755
Pension and other post-employment benefit costs	77,576	96,056
Share-based payment expenses	5,268	6,528
	<u>474,041</u>	<u>515,107</u>

Pension and other post-employment benefit costs of £77.6m (2018: £96.1m) relate to defined benefit ("DB") and defined contribution ("DC") pension schemes for employees of the Company.

The equivalent amounts reported in note 18 represent costs for employees of the Company who are members of the schemes and other members who provide services to BGSL and other group companies:

(a) DB schemes: current service costs of £83.0m (2018: £105.5m), shown in the reconciliation of scheme assets and liabilities.

(b) DC schemes: costs of £6.2m (2018: £5.0m) charged to the income statement.

For information on Directors' remuneration, refer to note 22.

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

	2019 No. of employees	2018 No. of employees
Field engineers	5,794	6,547
Administration and support	3,069	2,917
	<u>8,863</u>	<u>9,464</u>

The increase in the average monthly administration and support headcount in 2019 was impacted by 374 previously outsourced staff transferring to the Company under a TUPE arrangement.

Headcount at 31 December 2019 was 8,555 (31 December 2018: 9,111).

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

6 Exceptional items

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

	2019 £'000	2018 £'000
Restructuring and business change costs	153,973	34,653
Past service (credit)/cost on defined benefit pension schemes	(182,166)	14,363
Loss/(gain) on disposal of assets	80	(50)
Impairment of assets	13	-
	<u>(28,100)</u>	<u>48,966</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, closure of business premises and other transformational activity.

The 2019 past service credit is the result of an amendment to scheme rules on how members elect to access certain benefit options. The effect of past service items on pension scheme liabilities is shown in the reconciliation of scheme assets and liabilities in note 18.

7 Net finance income

	2019 £'000	2018 £'000
Interest income from amounts owed by group undertakings	61,786	49,878
Net interest income on pension scheme assets and liabilities	17,801	7,282
Interest expense on lease liabilities	(1,293)	-
	<u>78,294</u>	<u>57,160</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 4.20% and 4.90% per annum during 2019 (2018: 3.80% and 4.13%).

8 Auditor's remuneration

The Company paid an amount of £120,000 (2018: £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 company, Centrica plc.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

9 Income tax

Tax charged/(credited) in the income statement

	2019 £'000	2018 £'000
Current tax		
UK corporation tax at 19.00% (2018: 19.00%)	1,552	18,723
UK corporation tax adjustment to prior periods	(762)	(644)
	<u>790</u>	<u>18,079</u>
Deferred tax		
Arising from origination and reversal of temporary differences - UK	46,617	(1,067)
Arising from changes in tax rates and laws	(4,907)	1,284
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	1,044	716
Total deferred tax	<u>42,754</u>	<u>933</u>
Tax expense in the income statement	<u>43,544</u>	<u>19,012</u>

The Company earns its profits in the UK. These activities are subject to the standard rate for UK corporation tax of 19.00% (2018: 19.00%).

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:

	2019 £'000	2018 £'000
Profit before tax	<u>257,062</u>	<u>83,711</u>
Tax expense at standard UK rate of 19.00% (2018: 19.00%)	48,842	15,905
Effects of:		
Net expenses non-deductible for tax purposes	265	895
Adjustment for prior periods	283	72
Effect of tax rate changes	(4,907)	1,284
Deferred tax movement - share based payments	1,029	865
Income not taxable	(78)	-
Deferred tax movement - Pensions	(1,890)	(9)
Total income tax expense	<u>43,544</u>	<u>19,012</u>

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

9 Income tax (continued)

The main rate of corporation tax for the year to 31 December 2019 was 19%. The corporation tax rate was due to reduce to 17% with effect from 1 April 2020. However, in the Budget on 11 March 2020 it was announced that the rate of corporation tax will remain at 19%.

As a substantive enactment of the 19% corporation tax rate is after the balance sheet date, the deferred tax balances provided in these financial statements reflect the enacted rate of 17%. For future reporting dates after the enactment of the Finance Bill 2020, the deferred tax balances provided are expected to increase by £6,655,000, and will be reflected in the financial statements for the year ended 31 December 2020.

Current tax liabilities

	2019 £'000	2018 £'000
Corporation tax	3,872	-
	<u>3,872</u>	<u>-</u>

Deferred tax assets/liabilities

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
1 January 2019	3,524	1,049	(54,902)	(50,329)
Credited/(charged) to the income statement	(256)	(945)	(41,553)	(42,754)
Credited to other comprehensive income	-	-	36,512	36,512
31 December 2019	<u>3,268</u>	<u>104</u>	<u>(59,943)</u>	<u>(56,571)</u>
1 January 2018	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)
31 December 2018	<u>3,524</u>	<u>1,049</u>	<u>(54,902)</u>	<u>(50,329)</u>

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

10 Property, plant and equipment

	Right of use assets £' 000	Plant and equipment £'000	Assets under construction £'000	Total £'000
Cost or valuation				
At 1 January 2019	103,558	37,504	3,322	144,384
Additions	13,870	2,954	554	17,378
Transfer to assets in use	-	2,068	(2,068)	-
Transfer to a fellow group company	-	-	(688)	(688)
Retirement	(4,331)	(971)	(4)	(5,306)
At 31 December 2019	113,097	41,555	1,116	155,768
Depreciation				
At 1 January 2019	32,833	20,427	-	53,260
Charge for the year	23,355	8,861	-	32,216
Retirement	(2,969)	(863)	-	(3,832)
At 31 December 2019	53,219	28,425	-	81,644
Carrying amount				
At 31 December 2019	59,878	13,130	1,116	74,124
At 31 December 2018	-	17,077	3,322	20,399

Right of use assets are motor vehicles subject to finance leases which were accounted in 2019 for the first time applying IFRS 16 'Leases'. Comparatives for 2018 have not been restated.

The retirement of assets during the year is the result of identifying assets no longer providing services to the Company and their removal from the assets register.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

11 Intangible assets

	Internal software development £'000	Assets under construction £'000	Total £'000
Cost or valuation			
At 1 January 2019	103,298	12,936	116,234
Additions	-	27,829	27,829
Transfer to assets in use	7,447	(7,447)	-
Transfer from a fellow group company	2,147	-	2,147
Retirement	(7,377)	-	(7,377)
At 31 December 2019	105,515	33,318	138,833
Amortisation			
At 1 January 2019	67,342	-	67,342
Amortisation charge	13,966	-	13,966
Transfer from a fellow group company	289	-	289
Retirement	(7,377)	-	(7,377)
At 31 December 2019	74,220	-	74,220
Carrying amount			
At 31 December 2019	31,295	33,318	64,613
At 31 December 2018	35,956	12,936	48,892

The retirement of assets during the year is the result of identifying assets no longer providing services to the Company and their removal from the assets register.

Development costs have been capitalised in accordance with IAS 38 "Intangible Assets" and are therefore not treated as realised losses for dividend purposes.

12 Investments in subsidiaries

Investments classified as non-current

Shares in group undertakings (subsidiaries)	£'000
At 1 January 2019	150
At 31 December 2019	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 2019 (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 2019:

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

13 Trade and other receivables, and contract-related assets

	2019		2018	
	Current £'000	Non-current £'000	Current £'000	Non-current £'000
Amounts owed by group undertakings	466,115	-	907,419	-
Prepayments	11,006	-	26,763	-
Other receivables	2,611	-	3,548	-
Contract related assets	2,361	2,318	557	1,114
	<u>482,093</u>	<u>2,318</u>	<u>938,287</u>	<u>1,114</u>

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 4.20% and 4.90% per annum during 2019 (2018: 3.80% and 4.13%).

All amounts owed by group undertakings are unsecured and repayable on demand. On 30 December 2019, Centrica plc settled by bank transfer £470m of the amount owed which was subsequently repaid on 2 January 2020.

Contract-related assets are balances arising as a result of the Company's contracts with customers in the scope of IFRS 15 'Revenue from Contracts with Customers'.

14 Inventories

	2019 £'000	2018 £'000
Raw materials and consumables	<u>44,583</u>	<u>38,378</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 2019 (continued)

15 Trade and other payables

	2019 £'000	2018 £'000
Trade payables	60,791	70,309
Accrued expenses	36,274	30,413
Amounts owed to group undertakings	17,702	20,711
Social security and other taxes	10,364	12,203
Bank overdraft	16,411	9,183
	<u>141,542</u>	<u>142,819</u>

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

The bank overdraft represents items in the process of being cleared by the bank. Group treasury pools BGSL's funds daily and via intercompany arrangements 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 Lease liabilities

As described in note 2, on adoption of IFRS 16 'Leases', the Company entered into lease arrangements for vehicles with effect from 1 January 2019. The carrying amount, additions and depreciation charge associated with right-of-use assets are disclosed in note 10.

Discounted lease liabilities recognised in the statement of financial position:

	2019 £'000	2018 £'000
Lease liabilities - current	21,337	-
Lease liabilities - non current	24,532	-
	<u>45,869</u>	<u>-</u>

The maturity analysis of undiscounted future cash outflows associated with the Company's 2019 lease liabilities and 2018 operating lease obligations at 31 December were:

	2019 £'000	2018 £'000
Current	22,108	14,221
1-2 years	16,122	13,015
2-3 years	7,460	9,277
3-4 years	1,167	5,694
4-5 years	267	659
	<u>47,124</u>	<u>42,866</u>

Total cash outflow for leases during 2019 was £28.3m.

An additional expense of £2.9m relating to short-term leases was charged to the income statement during the period and is not included in lease liabilities.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

17 Provisions for other liabilities and charges

	2019 £'000	2018 £'000
Provisions for other liabilities and charges: current	7,297	3,916
Provisions for other liabilities and charges: non-current	6,105	175
	<u>13,402</u>	<u>4,091</u>

	Restructuring £'000	Employee benefits £'000	Total £'000
At 1 January 2019	3,916	175	4,091
Charged to the income statement	-	63	63
Charged to exceptional items in the income statement	153,973	-	153,973
Provisions used	(101,595)	-	(101,595)
Transfer to pensions	(43,130)	-	(43,130)
At 31 December 2019	<u>13,164</u>	<u>238</u>	<u>13,402</u>

Restructuring

The provision predominantly relates to cost reduction and operating efficiency 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.

18 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 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'.

Further information on critical accounting judgements and key sources of estimation uncertainty in relation to pensions is provided in note 3 of 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.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

18 Post-employment benefits (continued)

Reconciliation of scheme assets and liabilities

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

	2019			2018		
	Assets £'000	Liabilities £'000	Total £'000	Assets £'000	Liabilities £'000	Total £'000
1 January	4,974,766	(4,625,899)	348,867	4,916,400	(4,991,808)	(75,408)
Items included in the income statement:						
Current service cost	-	(82,979)	(82,979)	-	(105,501)	(105,501)
Past service credit/(cost)	-	182,166	182,166	-	(14,363)	(14,363)
Interest income/(expense)	148,160	(130,359)	17,801	135,546	(128,264)	7,282
Other movements:						
Re-measurement gains/(losses)	201,270	(416,045)	(214,775)	(24,383)	474,129	449,746
Employer contributions ⁱ	162,409	-	162,409	88,339	-	88,339
Plan participants contributions	1,700	(1,700)	-	1,488	(1,488)	-
Benefits paid from schemes	(150,704)	150,704	-	(142,624)	142,624	-
Transfers from provisions for other liabilities and charges ⁱⁱ	-	(53,076)	(53,076)	-	(1,228)	(1,228)
31 December	<u>5,337,601</u>	<u>(4,977,188)</u>	<u>360,413</u>	<u>4,974,766</u>	<u>(4,625,899)</u>	<u>348,867</u>

i. Employer contributions includes £78.5m of incremental deficit reduction contributions (2018: nil).

ii. The transfer from provisions comprises a £43.1m transfer reported in Note 17 from BGSL, £8.8m from British Gas New Heating Limited and £1.2m from Dyno-Rod Limited.

Presented in the Statement of Financial Position as:

	2019 £'000	2018 £'000
Retirement benefit assets	<u>360,413</u>	<u>348,867</u>
	<u>360,413</u>	<u>348,867</u>

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

18 Post-employment benefits (continued)

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

	2019 £'000	2018 £'000
Actuarial gain/(loss) (actual return less expected return on pension scheme assets)	201,270	(24,383)
Experience gain/(loss) arising on scheme liabilities	263,109	(6,298)
(Loss)/gain due to changes in assumptions underlying the present value of the schemes' liabilities	<u>(679,154)</u>	<u>480,427</u>
Actuarial (loss)/gain recognised in reserves before adjustment for taxation	(214,775)	449,746
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	<u>(537,190)</u>	<u>(986,936)</u>
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation (i)	<u>(751,965)</u>	<u>(537,190)</u>

i. Cumulative actuarial loss of £751,965,000 (2018: £537,190,000) above is shown net of deferred tax in the statement of financial position £624,133,000 (2018: £445,870,000).

Pension scheme contributions

Note 22 to the Group Financial Statements provides details of the triennial review carried out at 31 March 2018 in respect of the UK Registered Pension Schemes and the future pension scheme contributions, including asset-backed arrangements, agreed as part of this review. Under IAS 19, the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets.

The Company estimates that it will pay £46.5m of employer contributions during 2020 at an average rate of 18.1% of pensionable pay together with contribution via the salary sacrifice arrangement of £23.2m.

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:

	Increase/decrease in assumption	2019 Indicative effect on scheme liabilities %	Increase/decrease in assumption	2018 Indicative effect on scheme liabilities %
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.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

18 Post-employment benefits (continued)

Pension scheme assets

The major categories of scheme assets are as follows:

	2019 £m	2018 £m
Liability matching assets	2,505	2,575
Equities	534	2,342
High yield debt	2,303	1,955
Corporate bonds	2,646	1,118
Asset-backed contribution assets	738	802
Property	316	395
Cash pending investment	695	102
Group pension scheme assets	<u>9,737</u>	<u>9,289</u>
Company share of the above	<u>5,338</u>	<u>4,975</u>

Defined contribution pension schemes

The total cost charged to the income statement of £6.2m (2018: £5.0m) represents contributions payable to these schemes by the Company at rates specified in the rules of the schemes.

19 Capital and reserves

	2019 £'000	2018 £'000
Allotted and fully paid share capital of the Company		
5,000,003 ordinary shares of £1 each (2018: 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.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 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 £5.3m (2018: £6.5m). 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) and Conditional Share Incentive Plan (CSIP)

Awards under the OTIP and CSIP are available to senior executives, senior and middle management. The number of shares awarded is dependent on annual targets for individual 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 is 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.

21 Dividends paid and proposed

No dividends were paid or proposed for the year ended 31 December 2019 (2018: nil).

22 Directors' remuneration

Fees allocated to the Company for services provided by non-executive Directors during the year were £172,453 (2018: £234,533).

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.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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. 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

Coronavirus (Covid19)

Subsequent to the balance sheet date, on 11 March 2020 the World Health Organisation declared the SARS-CoV-2 outbreak and resultant COVID-19 to be a global pandemic. The UK Government moved to a 'delay' phase on 12 March 2020, announced social distancing measures on 16 March 2020, and unprecedented 'stay at home' restrictions on 23 March 2020. The Company has therefore concluded that the necessity for large scale Government interventions in response to COVID-19 only became apparent after the balance sheet date and therefore the consequences of such interventions represent non-adjusting post balance sheet events. The Company has no critical judgements or key sources of estimation uncertainty at the balance sheet date which could have been subsequently affected by these events.

Group restructure

On 11 June 2020, Centrica announced plans for a significant restructure designed to create a simpler, leaner group focused on improved service delivery for customers. The revised operating model is expected to accelerate the delivery of targeted cost savings and lead to a reduction of around 5,000 roles across the Group. The majority of the restructuring is expected to take place in the second half of 2020 after necessary consultations on the proposals have been concluded. The Company would expect to be materially impacted by the restructure and exceptional costs reported in its 2020 results but due to uncertainties arising from the consultation process it is not possible to quantify the effect at this time. The restructure will benefit the longer term value of the business, future operating profits and maintenance of a strong capital position.