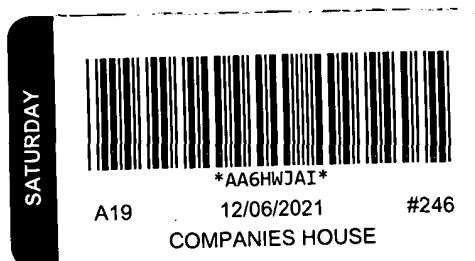


Registration number: 03141243

# British Gas Services Limited

Annual Report and Financial Statements  
for the Year Ended 31 December 2020



## **British Gas Services Limited**

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## **British Gas Services Limited**

### **Strategic Report for the Year Ended 31 December 2020**

The Directors present their Strategic Report for British Gas Services Limited ('BGSL' or 'the Company') for the year ended 31 December 2020.

#### **Principal activity**

The Company's principal activity is to introduce general insurance business to British Gas Insurance Limited ('BGIL') in the UK covering the breakdown of domestic boilers and central heating systems, plumbing and drains, and electrical and gas appliances. It is authorised to carry out its regulated activities by the Financial Conduct Authority ('FCA').

The Company also provides claims fulfilment and claims handling services.

#### **Section 172(1) statement**

In promoting the success of the Company, the Directors must also consider the interests of stakeholders and the other matters required by section 172(1) (a) to (f) of the Companies Act 2006 ('the Act'). This Section 172 statement describes how the Directors have taken into account wider stakeholders in their decision making and also the principal decisions taken during the year. Whilst BGSL is an independent subsidiary of Centrica plc, BGSL's activity supports the wider strategy of British Gas and the Centrica Group ('the Group'). Where appropriate, for example in matters of long-term strategy, decision making is aligned with that of the parent company Board, ensuring that BGSL stakeholders have been rigorously considered.

#### **General confirmation of Directors' duties**

Directors are fully aware of and understand their statutory duties under the Act. The Board has a clear framework for determining the matters within its remit and has approved Terms of Reference for the matters delegated to its Committees. 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 regularly where the Directors consider the Company's activities and make decisions, supported by sub-committees covering risk, audit, remuneration and nomination matters. At Board meetings, the Directors review financial and operational performance, business strategy, key risks, stakeholder-related matters, governance, and legal and regulatory compliance. For example, the Company applies a conduct framework to monitor how effectively it meets its obligations to customers and regulatory authorities. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board. When making decisions, each Director ensures that they act in the way they consider, in good faith, would most likely promote the Company's success for the benefit of its members as a whole, and in doing so have regard (among other matters) to section 172(1) (a) to (f) as described below.

##### *(a) The likely consequences of any decision in the long term*

The Directors understand BGSL's business and the evolving environment in which it operates, including the challenges of a highly competitive marketplace, regulatory intervention and climate change.

The Directors also recognise how the business is viewed by different stakeholders and they took decisions during 2020 that they believed would best promote the Company's long-term success for the benefit of its stakeholders as a whole. For example the Board had oversight of significant British Gas restructuring (where it applied to BGSL) which was aimed at creating a simpler, leaner business focused on delivery for customers.

Further reference to operations and regulatory relationships is included in the 'Review of the Business' section below.

## British Gas Services Limited

### Strategic Report for the Year Ended 31 December 2020 (continued)

#### *(b) The interests of the Company's employees*

The Directors recognise that employees are fundamental to the future growth and success of the Company. That success depends on looking after our employees including application of the Group's diversity policy and strategy. The Board is mindful that decisions and oversight often have to balance the differing needs of stakeholders. For example, employee safety considerations during the Covid-19 pandemic including home working capability and making only essential visits to customers' homes balanced against ensuring continued customer product value. The decisions taken by the Board were designed to prioritise and protect the health and safety of our employees and customers in the face of the global public health risk.

Subsequent to the reporting date, the Company's service engineers commenced industrial action in relation to changes to terms and conditions of employment with a series of strike dates in 2021. These changes were critical in order to deliver the business strategy and offer flexible service to our customers. The new terms and conditions were applied on 1st April 2021 and some engineers left the Company's employment. The Board was kept well informed of the negotiations.

#### *(c) The need to foster the Company's business relationships with suppliers, customers and others*

The Directors recognise the benefits of engaging with a broad range of stakeholders and developing and delivering our strategy depends on building and maintaining constructive relationships with them all.

The Board's actions ensured that we prioritised vulnerable customers and those with emergencies during the pandemic and we had to deprioritise less urgent work to ensure we operated within Government guidelines and legal requirements and kept our employees and customers safe.

Given the challenges presented by the Covid-19 pandemic, the Board requested that management assess the value for money that customers received during this period. With customers spending significantly more time at home than in previous years, the Board was satisfied that the use of our insured products had increased and were more relevant to our customers than before the pandemic. Pricing metrics, designed to track product value for money, also demonstrated a very stable performance across the key metrics through 2020 including claims frequency and retention.

#### *(d) The impact of the Company's operations on the community and the environment*

The Directors appreciate that collaboration with charities and community groups helps to create stronger communities and provides insights that enable the Board to understand BGSL's impact on the community and environment, and the consequences of its decisions in the long term. For that reason, the Company has given back to the community through the Trussell Trust in helping to meet the rapid rise in demand for foodbanks throughout the pandemic. Furthermore, in consideration of the community and its customer-centric ethos, the Company supported the implementation of payment holidays of up to three months for customers in financial difficulty during the pandemic.

#### *(e) The desirability of the Company maintaining a reputation for high standards of business conduct*

The Board considers Centrica Group's 'Our Code' code of conduct when reviewing whistleblowing and conflicts of interest, and through its fraud policies. All Group employees are subject to this code. In addition, our business strategy is underpinned by a conduct risk framework that seeks to put the customer at the heart of decision making. Together, these drive a clear commitment to continuous improvement in customer service levels, seeking to solve more effectively and efficiently for our customers.

#### *(f) The need to act fairly as between members of the Company*

After weighing up all relevant factors, the Directors consider which course of action best promotes the long-term success of the Company, taking into consideration the impact on stakeholders. In doing so, the Directors recognise that the priorities of some stakeholders and the Company may differ but will endeavour as far as is possible and appropriate to balance the different needs of all stakeholders and treat them fairly.

### **Culture**

The Company's culture is set by the Group and embedded in all we do. Further information on our culture can be found on page 45 of the Group's Annual Report and Accounts 2020 ('Group accounts').

## British Gas Services Limited

### Strategic Report for the Year Ended 31 December 2020 (continued)

#### Stakeholder engagement

Proactive engagement remains a central focus for the Group, which ensures the Directors have regard to the matters set out in Section 172 (1) (a) to (f) of the Act. Further information on stakeholder engagement can be found on pages 22 to 27 of the Group accounts. Engaging with stakeholders delivers better outcomes for society, and for the business. It is fundamental to the Company's long term success.

#### Review of the business

The Company's financial performance for the year is described in the section below.

#### Results and performance

The results of the Company are set out on pages 16 and 17. Operating profit excluding exceptional items and other income was £139.6m (2019: £150.7m).

Profit before income tax was £112.6m (2019: £257.1m) after exceptional expense of £104.4m (2019: credit of £28.1m), finance income of £63.4m (2019: £78.3m) and other income of £14.0m.

The exceptional expenses relate to ongoing business transformation activity which is a continuation of the Group's cost efficiency programme. The Company has recognised restructuring costs principally related to redundancy, change resource, consultancy and other transformational activity.

During 2020, the Company recognised an amount totalling £14.0m receivable under the UK Government's 'Coronavirus Job Retention Scheme'. This has been presented as 'Other income' in the 'Income Statement'. There is no impact of this policy on prior periods.

Profit for the year after tax was £92.8m (2019: £213.5m) and total comprehensive loss for the year was £133.2m (2019: income £35.3m) after a net actuarial loss on defined benefit pension schemes of £226.0m (2019: £178.3m).

Revenue reduced by 4.9% from £1,017.3m to £967.0m, due to lower numbers of claims fulfilled for BGIL, reduced non-contract work as a result of Covid-19 restrictions and higher than average days of warmer weather. Claims income reduced as non-essential visits were deferred from 2020 to 2021 as a result of reduced access to customers' homes during periods of lockdown. While the work will be fulfilled largely within customer contract periods, the lower level of service visit activity reduced income in 2020, with a similar increase expected in 2021 as the rescheduled activity is completed.

The financial position of the Company is presented in the Statement of Financial Position on pages 18 to 19. Total equity at 31 December 2020 was £1,098.4m (2019: £1,237.0m).

#### Key performance indicators ('KPIs')

The Company's key performance indicators are:

	2020	2019
Policies in force at 31 December ('000)	7,910	7,876
Number of reportable customer complaints ('000)	174	185
Profit before taxation (£m)	113	257

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

Policies in force represent customer contracts, principally where the Company carries out insurance distribution activities on behalf of BGIL. The number of policies in force increased by 0.4% to 7,910,000 at 31 December 2020 (2019: 7,876,000) including additional warranty and home insurance contracts.

Complaint numbers fell year on year by 6% but on a lower number of completed jobs so proportionately complaints were higher year on year. 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 2020 (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 Officer who is supported by 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: the second line team protects and enables the business to achieve its objectives by providing advice and oversight of risk taking and risk management, while developing and delivering the relevant tools and methodologies to support business risk taking.

Third line: independent and objective assurance of the effectiveness of risk management and internal controls through Internal Audit.

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 Company has in place an effective and proportionate risk committee governance structure and escalation path which ensures that any material changes to the risk profile are identified on a timely basis and actioned as appropriate. In particular, a Risk Committee is 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 with potential high impact are assessed to confirm the Company can respond effectively to adverse scenarios. These are reviewed by management, the Risk Committee and the Board.

The principal risks to the Company are set out below:

##### **Strategic risks**

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

##### **Operational risks**

The following are the Company's principal operational risks:

###### ***Extreme weather and Climate Risk***

The Bank of England has identified two key risks relating to climate change:

###### **i. Physical risks such as extreme weather events**

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.

## British Gas Services Limited

### Strategic Report for the Year Ended 31 December 2020 (continued)

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.

#### ii. Transition risks

A move to a greener economy which could lead to a large fall in asset values in some sectors, or a higher cost of doing business.

There is a longer term risk to the market within which the Company operates, from a shift away from gas to other forms of energy such as electrification. The Company expects to play a role in the transition to a low carbon economy and evaluation of the risks and opportunities this present are reviewed by the Board as part of its strategy. This includes the installation of electric vehicle charging points, heat pumps, and the ongoing assessment of the role hydrogen gas could play in delivering the UK's green objectives.

#### *Business transformation*

The Company has a dedicated transformation governance programme in place to mitigate risks associated with implementing the Group's strategic review.

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

Cyber crime and the loss of customer data could have a potentially significant operational impact. We continue to invest in better security controls, to detect and prevent the key threats against the organisation. This involves identifying weaknesses in existing controls through in-depth testing and simulated cyber attacks, whilst investing in new controls that can meet the evolving threat landscape. To complement this process, the Company has focused on mitigating the human factors that contribute to successful cyber attacks through increased cyber security training for all staff and the first group-wide phishing simulation programme.

As the Company's cyber security maturity improves, we are becoming more focused on cyber resilience, the ability to withstand or recover from a cyber incident. This aligns to the regulatory direction for the industry, with more emphasis on the preparations we make for handling a successful attack and its consequences, as the regulators believe that a successful breach is inevitable and that organisations should plan for the consequences. As a result, we are including cyber recovery planning as well as systems stability in the Operational Resilience Programme that is underway, looking at specific breach scenarios and recovery strategies to deal with different types of breaches. All technical incidents are monitored and treated through an internal incident management programme and no material security breaches have been recorded.

#### *Availability of engineer workforce*

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

#### *Coronavirus (Covid-19)*

In March 2020 the World Health Organisation declared a global pandemic (Covid-19) which resulted in the Coronavirus Act 2020 in the UK, placing wide-ranging restrictions on freedom of movement.

Subsequent to the financial reporting date of 31 December 2020, there have been further lockdowns with restrictions on freedom of movement across the country. Following the deployment of the vaccination programme the UK government published 'Covid-19 Response - Spring 2021' on 22 February 2021 which sets out the roadmap out of lockdown, with restrictions easing in England from 8 March 2021. In Wales and Scotland, restrictions have also eased.

The Company continues to be focused on looking after the health and safety of employees and customers. This includes following all advice from the government and relevant health organisations. Depending on prevailing circumstances, the fulfilment of non-essential visits may be deferred, but service engineers continue to support core insurance activities including attending emergencies where a customer has no heating or hot water.

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. 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.

## **British Gas Services Limited**

### **Strategic Report for the Year Ended 31 December 2020 (continued)**

#### **Exit from the European Union**

The UK and the European Union agreed a new trade deal which came into effect on the 31 December 2020. The UK's exit from the European Union has added to the risks and uncertainties faced by the Company. However, it is considered that the direct impact of these uncertainties is 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. Extricating from European Union treaties is a task of immense complexity but the Company is well-positioned to manage the possible market impacts. Macroeconomic impacts on existing trade receivable recoverability are expected to be immaterial. The Company is carefully managing its inventory of EU sourced parts required to repair domestic appliances to 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 distribution 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 an executive level monthly committee, supported by a suite of directorate and subject matter sub-forums at which management review conduct risk performance and outlook against risk appetite using 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.

#### **Pensions risk**

Centrica and the Company continue 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 £48.5m towards this deficit in 2020 (2019: £78.5m). Defined benefit pension schemes had a net IAS 19 surplus of £52.5m at 31 December 2020 (2019: £360.4m).

During 2019, a pension liability hedging exercise was undertaken to further 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. During 2020 these steps helped to mitigate the adverse impact due to lower interest rates on the pension deficit and provide much greater funding stability.

#### **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 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 which mitigates the risk.

##### *Liquidity risk*

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



## **British Gas Services Limited**

### **Strategic Report for the Year Ended 31 December 2020 (continued)**

#### *Interest rate risk*

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

#### *Cash flow risk*

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

#### *Currency risk*

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

#### **Future developments**

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

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

In 2020 Centrica restructured its operating model resulting in a reduction in headcount and a reprioritisation of resource to meet the changing needs of its customer base but the legal structure of the Company and its fellow subsidiary BGIL remains unchanged.

Approved by the Board on 10 June 2021 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  
United Kingdom

## **British Gas Services Limited**

### **Directors' Report for the Year Ended 31 December 2020**

The Directors present their report and the audited financial statements for the year ended 31 December 2020.

#### **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, British Gas Services and Solutions)

A H Bowe (Non-Executive)

D J Hindley (Non-Executive)

C L McLeod (Chief Financial Officer)

R A Phipps (Non-Executive Chairman)

S R Vann (Non-Executive)

E M Catchpole (resigned 31 May 2021)

M D Kirwan (resigned 31 August 2020)

A L Tavaziva (resigned 10 June 2020)

#### **Corporate governance**

##### *Wates Principles*

The Wates Principles are a set of corporate governance principles providing a high-level, flexible governance code for companies that meet certain criteria and BGSL falls into this category. There are 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.

The Company has applied the principles and been fully compliant throughout the year.

#### **Results and dividends**

The results of the Company are set out on page 16. The profit for the financial year ended 31 December 2020 is £92.8m (2019: £213.5m).

The Company did not pay an interim dividend during the year (2019: £nil) and the Directors do not recommend the payment of a final dividend (2019: £nil).

#### **Objectives and policies**

BGSL is the largest domestic central heating and gas appliance service company in the UK and is authorised and regulated by the FCA to carry out insurance distribution activities. In 2020, the Company continued to carry out activities only in the UK, primarily in the private residential sector.

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

## **British Gas Services Limited**

### **Directors' Report for the Year Ended 31 December 2020 (continued)**

#### **Research and development**

During 2020, 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.

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.

The Board has approved a three-year operating plan that shows the Company to be profitable throughout. In 2021, results will be adversely impacted by the industrial action of some engineers but the one-off nature of this event does not change the going concern view of the Company.

#### **Colleagues**

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 2020, the average employee headcount was 8,404 all working in the UK (2019: 8,863).

Management strives to make the Company a rewarding place in which to work and has continued to focus on skills development and colleague engagement. Continuous learning and development is essential to ensure colleagues have the opportunity to fulfil their potential, have the skills to support business growth and implement Group strategy. At the end of 2020 we made a commitment to recruit 1,000 engineering apprentices over the next two years, with an ambition that 50 percent are women. Once qualified, apprentices will become Smart Energy Experts, installing smart meters with opportunities to upskill in other areas.

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.

## **British Gas Services Limited**

### **Directors' Report for the Year Ended 31 December 2020 (continued)**

#### **Colleague engagement**

The year 2020 was exceptionally difficult for everyone around the world and the Company's experience was no different. Beyond navigating the Covid-19 crisis, our focus as a Company has been to simplify and modernise how we work and to restore shareholder value. The changes have been difficult for our colleagues and as a result, colleague engagement is not where we would like it to be and will only change with improvements in our culture. The culture the Company wants to continue to foster one where everyone has a voice, is based on merit and where colleagues feel empowered and able to succeed. Further information on colleague engagement during the business transformation can be found on page 22 of the Group's Annual Report and Accounts 2020.

The Board acknowledges that colleague engagement is critical to our success. During 2020, the role of Directors in workforce engagement continued to evolve while the Group introduced a number of metrics to measure organisational health, carried out a deep dive on colleague wellbeing, sought to change the leadership tone from the top resulting in regular global townhalls and outlined the cultural shifts the organisation needs to take. Further information on employee engagement can be found on page 52 of the Group accounts.

Centrica 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. Over 100 engagement surveys were conducted to understand and respond to colleague 'pain points'.

#### **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 25 of the financial statements.

#### **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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

## **British Gas Services Limited**

### **Directors' Report for the Year Ended 31 December 2020 (continued)**

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

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and that 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. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

#### **Reappointment of auditor**

The external auditor has confirmed their independence as auditor of the Company.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

The Directors' report was approved by the Board on 10 June 2021 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  
United Kingdom

## **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 2020 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 'Reduced Disclosure Framework'; 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 25.

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 relating to going concern**

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- The Letter of Support for the Company provided by the ultimate parent company stating Centrica plc will cover all liabilities as they fall due for the period 18 months after 30 March 2021;
- evaluating management's going concern assessment in light of Covid-19; this included obtaining the underlying business plans and forecasts to support the key assumptions such as pricing and claims rates;
- obtaining and inspecting correspondence between the Company and its regulators, the Financial Conduct Authority, as well to identify any items of interest which could potentially indicate either non-compliance with legislation or potential litigation or regulatory action held against the Company; and
- assessing the appropriateness of the going concern disclosure.

## **British Gas Services Limited**

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

#### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

#### **Responsibilities of Directors**

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

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

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

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

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

#### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Company's industry and its control environment, and reviewed the documentation of policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

## **British Gas Services Limited**

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

We obtained an understanding of the legal and regulatory framework that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act, pension legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included regulatory capital requirements and the wider regulations of the Financial Conduct Authority.

We discussed among the audit engagement team, IT and pensions actuarial specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address it are described below:

- Valuation of defined benefit pension scheme future liabilities
  - Assessment of design and implementation of controls over the valuation of the future liabilities
  - Engage internal pensions actuarial specialists to assess the actuarial methodology used to benchmark key assumptions against industry averages

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority.

#### **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

10 June 2021

# British Gas Services Limited

## Income Statement for the Year Ended 31 December 2020

	Note	2020 £'000	2019 £'000
Revenue	3	966,955	1,017,346
Cost of sales	4	<u>(554,328)</u>	<u>(587,140)</u>
Gross profit		412,627	430,206
Operating costs	4	(273,066)	(279,538)
Exceptional items - other	6	(104,394)	28,100
Other income	7	<u>14,005</u>	<u>-</u>
Operating profit		49,172	178,768
Net finance income	8	<u>63,418</u>	<u>78,294</u>
Profit before taxation		112,590	257,062
Taxation on profit	10	<u>(19,821)</u>	<u>(43,544)</u>
Profit for the year		<u><u>92,769</u></u>	<u><u>213,518</u></u>

The above results were derived from continuing operations.

# British Gas Services Limited

## Statement of Comprehensive Income for the Year Ended 31 December 2020

	Note	2020 £'000	2019 £'000
Profit for the year		92,769	213,518
<b>Items that will not be reclassified to the Income Statement</b>			
Net actuarial losses on defined benefit pension schemes	19	(297,538)	(214,775)
Taxation on net actuarial losses on defined benefit pension schemes	10	<u>71,572</u>	<u>36,512</u>
Other comprehensive expense		<u>(225,966)</u>	<u>(178,263)</u>
Total comprehensive (expense)/income for the year		<u>(133,197)</u>	<u>35,255</u>

# British Gas Services Limited

## Statement of Financial Position as at 31 December 2020

	Note	2020 £'000	2019 £'000
<b>Non-current assets</b>			
Property, plant and equipment	11	56,084	74,124
Intangible assets	12	62,349	64,613
Investments in subsidiaries	13	150	150
Trade and other receivables	14	1,670	2,318
Retirement benefit assets	19	52,492	360,413
		<u>172,745</u>	<u>501,618</u>
<b>Current assets</b>			
Trade and other receivables	14	652,319	482,093
Inventories	15	40,343	44,583
Cash and cash equivalents		453,722	469,999
		<u>1,146,384</u>	<u>996,675</u>
<b>Total assets</b>		<u>1,319,129</u>	<u>1,498,293</u>
<b>Current liabilities</b>			
Trade and other payables	16	(145,932)	(141,542)
Current tax liabilities		(3,872)	(3,872)
Provisions for other liabilities and charges	18	(24,118)	(7,297)
Lease liabilities	17	(18,424)	(21,337)
		<u>(192,346)</u>	<u>(174,048)</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	10	(4,679)	(56,571)
Provisions for other liabilities and charges	18	(4,881)	(6,105)
Lease liabilities	17	(18,816)	(24,532)
		<u>(28,376)</u>	<u>(87,208)</u>
<b>Net assets</b>		<u>1,098,407</u>	<u>1,237,037</u>

The notes on pages 21 to 43 form an integral part of these financial statements.

## British Gas Services Limited

### Statement of Financial Position as at 31 December 2020 (continued)

	Note	2020 £'000	2019 £'000
<b>Equity</b>			
Share capital	20	5,000	5,000
Share premium	20	700,000	700,000
Retained earnings		1,185,799	1,093,030
Other reserves		57,707	63,140
Actuarial gains and losses reserve		<u>(850,099)</u>	<u>(624,133)</u>
<b>Total equity</b>		<u><u>1,098,407</u></u>	<u><u>1,237,037</u></u>

The financial statements on pages 16 to 43 were approved and authorised for issue by the Board of Directors on 10 June 2021 and signed on its behalf by:



.....  
C L McLeod (Chief Financial Officer)

Director

Company number 03141243

**British Gas Services Limited**

**Statement of Changes in Equity for the Year Ended 31 December 2020**

	Share capital £'000	Share premium £'000	Retained earnings £'000	Actuarial reserve £'000	Other reserves £'000	Total equity £'000
At 1 January 2020	5,000	700,000	1,093,030	(624,133)	63,140	1,237,037
Profit for the year	-	-	92,769	-	-	92,769
Other comprehensive expense	-	-	-	(225,966)	-	(225,966)
Total comprehensive income/(expense)	-	-	92,769	(225,966)	-	(133,197)
Equity settled share based payments	-	-	-	-	3,753	3,753
Exercise of awards	-	-	-	-	(9,190)	(9,190)
Deferred tax on share based payments	-	-	-	-	4	4
At 31 December 2020	<u>5,000</u>	<u>700,000</u>	<u>1,185,799</u>	<u>(850,099)</u>	<u>57,707</u>	<u>1,098,407</u>

	Share capital £'000	Share premium £'000	Retained earnings £'000	Actuarial reserve £'000	Other reserves £'000	Total equity £'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 expense	-	-	-	(178,263)	-	(178,263)
Total comprehensive income/(expense)	-	-	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	<u>5,000</u>	<u>700,000</u>	<u>1,093,030</u>	<u>(624,133)</u>	<u>63,140</u>	<u>1,237,037</u>

The notes on pages 21 to 43 form an integral part of these financial statements.  
Page 20

## **British Gas Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **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 address of its 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 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.

##### **Changes to accounting policies**

From 1 January 2020, the following standards and amendments are effective in the Company's financial statements:

- Amendments to IFRS 3: 'Business combinations';

## **British Gas Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

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

- Amendments to IAS 1: 'Presentation of financial statements' and IAS 8: 'Accounting policies, changes in accounting estimates and errors';
- Interest Rate Benchmark Reform - Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7; and
- Conceptual Framework for Financial Reporting 2018.

None of these changes or amendments had any material impact on the Company's financial statements.

#### **Standards and amendments that are issued but not yet applied by the Company**

- IFRS 17: 'Insurance contracts', effective from 1 January 2023;
- Amendments to IAS 37: 'Provisions, Contingent Liabilities and Contingent Assets', effective from 1 January 2022;
- Amendments to IAS 1: 'Presentation of Financial Statements', effective from 1 January 2023;
- 'Annual Improvements to IFRS 2018-2020', effective from 1 January 2022; and
- 'Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16', effective from 1 January 2021.

#### **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.

#### **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.

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.

#### **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 25.



## **British Gas Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (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 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:

- Distribution placement activities relating to the initial set-up of an insurance contract: delivered at a point in time as contracts are established.
- Distribution 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.

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.

##### **Covid-19 support schemes**

As a result of the economic impacts of the Covid-19 pandemic, a number of government programmes have been put into place to support businesses and consumers. Examples of such initiatives include the UK's Coronavirus Job Retention Scheme. In accounting for the impacts of these measures, the Company has applied IAS 20: 'Government grants'. Grants are recognised when there is reasonable assurance that the Company will comply with the conditions attaching to them, and that the grant will be received. Government grants are recognised in the 'Income Statement' on a systematic basis over the periods in which the related costs that they are intended to compensate are recognised. Grants related to income are reported as 'Other Income' in the 'Income Statement'. Government grants received in advance of the Company meeting the criteria for recognition in the 'Income Statement' are deferred and presented within 'Trade and other payables'. There is no impact of this policy on prior periods.

##### **Cost of Sales**

Cost of sales relating to fixed-fee service and insurance contracts includes direct and contract labour, materials consumed and related overheads on installation work, repairs and service contracts in the year.

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

The Centrica plc 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 Centrica plc group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

## **British Gas Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

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

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. 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 and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. 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 estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not 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.

##### **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 2020 (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 contractual customer relationships, brands, application software, emissions trading schemes, renewable obligation certificates, and certain exploration and evaluation expenditures, 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.

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.

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.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 2 Accounting policies (continued)

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

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	Amortisation 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 2020 (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.

Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

##### **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 accounts.

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.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 2 Accounting policies (continued)

##### *(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 less an allowance for expected credit losses.

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.

##### *(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. Own equity instruments that are re-acquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Company's Income Statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### **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.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 2 Accounting policies (continued)

##### 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.

#### 3 Revenue

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

	2020 £'000	2019 £'000
Services, claims handling and other revenue	370,505	475,476
Insurance intermediary commission	530,772	464,614
Revenue from warranty and other contracts	46,947	41,377
On demand revenue	18,731	35,879
	<u>966,955</u>	<u>1,017,346</u>

Services, claims handling and other revenue comprises principally income from BGIL for claims fulfilment and claims handling activities. The revenue decrease in 2020 reflects lower claims frequency and visits due to Covid-19 restrictions. The impact of new contractual arrangements agreed with BGIL was the main contributor to increased insurance intermediary commission.

#### 4 Analysis of costs by nature

	2020			2019		
	Cost of sales £'000	Operating costs £'000	Total costs £'000	Cost of sales £'000	Operating costs £'000	Total costs £'000
Employee costs	325,067	112,160	437,227	339,785	134,256	474,041
Materials	73,877	-	73,877	68,254	-	68,254
Contractor, consultancy, other professional services	106,333	16,249	122,582	114,669	11,486	126,155
Advertising and marketing	-	22,198	22,198	-	22,653	22,653
Depreciation and amortisation	20,368	30,068	50,436	17,432	28,750	46,182
Other costs	28,683	92,391	121,074	47,000	82,393	129,393
	<u>554,328</u>	<u>273,066</u>	<u>827,394</u>	<u>587,140</u>	<u>279,538</u>	<u>866,678</u>
Total costs by nature						

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 5 Employees' costs

The aggregate employee costs (including Directors' remuneration) were as follows:

	2020 £'000	2019 £'000
Wages and salaries	322,009	346,672
Social security costs	33,114	44,525
Pension and other post-employment benefits	78,351	77,576
Share-based payment expenses	3,753	5,268
	<u>437,227</u>	<u>474,041</u>

The average number of persons employed by the company (including Directors) during the year, analysed by category was as follows:

	2020 Headcount	2019 Headcount
Field engineers	5,360	5,794
Administration and support	3,044	3,069
	<u>8,404</u>	<u>8,863</u>

#### 6 Exceptional items

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

	2020 £'000	2019 £'000
Exceptional items - restructuring costs	102,978	153,973
Past service cost on defined benefit pension schemes	-	(182,166)
Gain (loss) on disposal of property, plant and equipment	(368)	80
Exceptional items - impairment of property, plant and equipment	1,784	13
	<u>104,394</u>	<u>(28,100)</u>

The Company has recognised restructuring costs principally related to redundancy, change resource and other transformational activity.

#### 7 Other income

##### COVID-19 Support Schemes

During 2020, the Company recognised an amount totalling £14.0m receivable under the UK Government's 'Coronavirus Job Retention Scheme'. There is no impact of this policy on prior periods.



## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 8 Net finance income/cost

##### Finance income

	2020 £'000	2019 £'000
Interest income from amounts owed by Group undertakings	45,614	61,786
Net interest income on pension scheme assets and liabilities	18,738	17,801
<b>Total finance income</b>	<b>64,352</b>	<b>79,587</b>
Interest expense on lease liabilities	(934)	(1,293)
<b>Total finance costs</b>	<b>(934)</b>	<b>(1,293)</b>
<b>Net finance income</b>	<b>63,418</b>	<b>78,294</b>

#### 9 Auditor's remuneration

The Company paid £120,000 (2019: £120,000) to its auditor in respect of the audit of the financial statements.

The auditor did not carry out any non-audit services during 2020.

#### 10 Income tax

Tax credited/(charged) in the Income Statement

	2020 £'000	2019 £'000
<b>Current taxation</b>		
UK corporation tax at 19% (2019: 19%)	-	1,552
UK corporation tax adjustment to prior periods	137	(762)
	<b>137</b>	<b>790</b>
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	(1,918)	46,617
Changes in tax rates	21,685	(4,907)
Arising from previously unrecognised tax loss, tax credit, or temporary difference of prior period	(83)	1,044
<b>Total deferred taxation</b>	<b>19,684</b>	<b>42,754</b>
<b>Total income tax expense</b>	<b>19,821</b>	<b>43,544</b>

The main rate of corporation tax for the year to 31 December 2020 was 19% (2019: 19%). The Budget on 3 March 2021 announced that the rate of corporation will increase to 25% with effect from 1 April 2023. The deferred tax balances provided in these financial statements reflect the enacted rate of 19%. When the Finance Bill 2021 is enacted the impact on deferred tax balances will increase the deferred balances by £1.5m.

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 10 Income tax (continued)

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:

	2020 £'000	2019 £'000
Profit before tax	112,590	257,062
Tax expense at standard UK corporation tax rate of 19% (2019: 19%)	21,392	48,842
Net expenses non-deductible for tax purposes	147	265
Adjustment for prior periods	54	283
Effect of tax rate changes	21,685	(4,907)
Deferred tax movement - share based payments	600	1,029
Income not taxable	(86)	(78)
Deferred tax movement - Pensions	-	(1,890)
Effect of group relief	(23,971)	-
Total income tax expense	19,821	43,544

# British Gas Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 10 Income tax (continued)

#### Deferred tax

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

	Accelerated tax depreciation £000	Other timing differences including losses carried forward £000	Retirement benefit obligation and other provisions £000	Total £ 000
1 January 2020	3,268	104	(59,943)	(56,571)
Charged/(credited) to the Income Statement	904	-	(20,613)	(19,709)
Charged/(credited) to other comprehensive income	-	-	71,572	71,572
Prior period adjustments	-	25	-	25
To equity	-	4	-	4
31 December 2020	<u>4,172</u>	<u>133</u>	<u>(8,984)</u>	<u>(4,679)</u>

	Accelerated tax depreciation £'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)
Charged/(credited) to the Income Statement	(256)	-	(41,553)	(41,809)
Charged/(credited) to other comprehensive income	-	-	36,512	36,512
Prior period adjustments	-	(945)	-	(945)
31 December 2019	<u>3,268</u>	<u>104</u>	<u>(59,943)</u>	<u>(56,571)</u>

# British Gas Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 11 Property, plant and equipment

	Right of use assets £'000	Plant and equipment £'000	Assets under construction £'000	Total £'000
<b>Cost</b>				
At 1 January 2020	113,097	41,555	1,116	155,768
Additions	18,785	982	89	19,856
Retirement	(24,079)	(118)	-	(24,197)
Transfers	-	813	(813)	-
Impairment	-	(1,339)	-	(1,339)
At 31 December 2020	<u>107,803</u>	<u>41,893</u>	<u>392</u>	<u>150,088</u>
<b>Accumulated depreciation and impairment</b>				
At 1 January 2020	(53,219)	(28,425)	-	(81,644)
Charge for the year	(26,304)	(7,645)	-	(33,949)
Retirement	20,506	117	-	20,623
Impairment	-	966	-	966
At 31 December 2020	<u>(59,017)</u>	<u>(34,987)</u>	<u>-</u>	<u>(94,004)</u>
<b>Net book value</b>				
At 31 December 2020	<u>48,786</u>	<u>6,906</u>	<u>392</u>	<u>56,084</u>
At 31 December 2019	<u>59,878</u>	<u>13,130</u>	<u>1,116</u>	<u>74,124</u>

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 2020 (continued)

#### 12 Intangible assets

	Internally generated software development costs £'000	Assets under construction £'000	Total £'000
<b>Cost or valuation</b>			
At 1 January 2020	105,515	33,318	138,833
Impairment	(2,116)	-	(2,116)
Additions and capitalised borrowing costs	-	15,633	15,633
Transfers	16,616	(16,616)	-
At 31 December 2020	120,015	32,335	152,350
<b>Amortisation</b>			
At 1 January 2020	(74,220)	-	(74,220)
Amortisation	(16,486)	-	(16,486)
Impairment	705	-	705
At 31 December 2020	(90,001)	-	(90,001)
<b>Carrying amount</b>			
At 31 December 2020	30,014	32,335	62,349
At 31 December 2019	31,295	33,318	64,613

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

#### 13 Investments in subsidiaries

Investments classified as non-current

*Shares in group undertakings (subsidiaries)*

	£'000
At 1 January 2020	150
At 31 December 2020	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 2020 (continued)

#### 13 Investments in subsidiaries (continued)

Details of the subsidiaries as at 31 December 2020 are as follows:

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held
Dyno-Rod Limited	Operation of a franchise network	Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD UK	£1.00 Ordinary shares	100%

#### 14 Trade and other receivables

	2020		2019	
	Current £'000	Non-current £'000	Current £'000	Non-current £'000
Amounts owed by Group undertakings	639,016	-	466,115	-
Prepayments	7,969	-	11,006	-
Other receivables	2,151	-	2,611	-
Contract related assets	3,183	1,670	2,361	2,318
	<u>652,319</u>	<u>1,670</u>	<u>482,093</u>	<u>2,318</u>

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Included within the net 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 4.42 and 4.73% per annum during 2020 (2019: 4.20 and 4.90%). The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

On 31 December 2020, Centrica plc settled by bank transfer £450m of the amount owed which was subsequently repaid on 4 January 2021.

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'.

#### 15 Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	<u>40,343</u>	<u>44,583</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 2020 (continued)

#### 16 Trade and other payables

	2020	2019
	£'000	£'000
Trade payables	54,492	60,791
Accrued expenses	45,854	36,274
Amounts owed to Group undertakings	17,784	17,702
Social security and other taxes	9,054	10,364
Bank overdraft	18,748	16,411
	<u>145,932</u>	<u>141,542</u>

Amounts owed to Group undertakings are interest free, 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.

#### 17 Loans and borrowings

##### Leases included in creditors

	2020	2019
	£'000	£'000
Current portion of long term lease liabilities	18,424	21,337
Long term lease liabilities	18,816	24,532
	<u>37,240</u>	<u>45,869</u>

##### Lease liabilities maturity analysis

A maturity analysis of lease liabilities based on undiscounted gross cash flow is reported in the table below:

	2020	2019
	£'000	£'000
Less than one year	18,881	22,108
2 years	10,891	16,122
3 years	3,616	7,460
4 years	2,196	1,167
5 years	1,490	267
6 years	896	-
Total lease liabilities (undiscounted)	<u>37,970</u>	<u>47,124</u>

Total cash outflow for leases during 2020 was £27.1m (2019: £28.3m).

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 18 Provisions for other liabilities and charges

	<b>Restructuring £'000</b>	<b>Employee benefits £'000</b>	<b>Total £'000</b>
At 1 January 2020	13,165	238	13,403
Charged to exceptional items in the income statement	47,367	21	47,388
Unused provision reversed to the income statement	(3,061)	-	(3,061)
Provisions used	(28,092)	(37)	(28,129)
Transfers	(602)	-	(602)
At 31 December 2020	<u>28,777</u>	<u>222</u>	<u>28,999</u>
Non-current liabilities	<u>4,659</u>	<u>222</u>	<u>4,881</u>
Current liabilities	<u>24,118</u>	<u>-</u>	<u>24,118</u>

#### 19 Post-retirement benefits

##### Defined benefit pension schemes

The Company's employees participate in the following Group defined benefit pension schemes: Centrica Pension Plan ('CPP'), Centrica Pension Scheme ('CPS'), Centrica Engineers Pension Scheme ('CEPS') and Centrica Unfunded Pension Scheme ('CUPS'). Its employees also participate in the defined contribution section of the Centrica Pension Scheme. Information on these schemes is provided in note 22 to the Group accounts.

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

##### 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 accounts.



# British Gas Services Limited

## Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

### 19 Post-retirement benefits (continued)

#### Reconciliation of scheme assets and liabilities

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

	2020			2019		
	Assets £'000	Liabilities £'000	Total £'000	Assets £'000	Liabilities £'000	Total £'000
1 January	5,337,601	(4,977,188)	360,413	4,974,766	(4,625,899)	348,867
<b>Items included in the Income Statement:</b>						
Current service cost	-	(80,023)	(80,023)	-	(82,979)	(82,979)
Past service credit	-	-	-	-	182,166	182,166
Termination benefits	-	(67,353)	(67,353)	-	-	-
Interest income/(expense)	126,234	(107,497)	18,737	148,160	(130,359)	17,801
<b>Other movements:</b>						
Re-measurement gains/(losses)	735,907	(1,033,445)	(297,538)	201,270	(416,045)	(214,775)
Employer contributions <sup>i</sup>	118,256	-	118,256	162,409	-	162,409
Plan participants contributions	1,849	(1,849)	-	1,700	(1,700)	-
Benefits paid from schemes	(148,792)	148,792	-	(150,704)	150,704	-
Transfers from provisions for other liabilities and charges	-	-	-	-	(53,076)	(53,076)
31 December	<u>6,171,055</u>	<u>(6,118,563)</u>	<u>52,492</u>	<u>5,337,601</u>	<u>(4,977,188)</u>	<u>360,413</u>

<sup>i</sup> Employer contributions include £48.5m of incremental deficit reduction contributions (2019: £78.5m).

Presented in the Statement of Financial Position as:

	2020 £'000	2019 £'000
Retirement benefit assets	<u>52,492</u>	<u>360,413</u>
	<u>52,492</u>	<u>360,413</u>

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 19 Post-retirement benefits (continued)

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

	2020 £'000	2019 £'000
Actuarial gain (actual return less expected return on pension scheme assets)	735,907	201,270
Experience (loss)/gain arising on the scheme liabilities	(40,358)	263,109
Changes in assumptions underlying the present value of the schemes' liabilities	(993,087)	(679,154)
Actuarial loss recognised in reserves before adjustment for taxation	(297,538)	(214,775)
Cumulative actuarial loss recognised in reserves at 1 January, before adjustment for taxation	(751,965)	(537,190)
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	(1,049,503)	(751,965)

Cumulative actuarial loss of £1,049,503,000 (2019: £751,965,000) above is shown net of deferred tax in the statement of financial position £850,099,000 (2019: £624,133,000).

##### Pensions scheme contributions

Note 22 to the Group accounts provides details of the triennial review based on the position at 31 March 2018 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements. Under IAS 19: 'Employee benefits (revised 2011)', the Company's contribution and trustee interest in the Scottish Limited Partnerships are recognised as scheme assets.

The Company estimates that it will pay £41m of employer contributions during 2021 at an average rate of 18% of pensionable pay together with contributions via the salary sacrifice arrangement of £20m.

Although the Group has established a new funding arrangement in the year based on the position as at 31 March 2018, it should be noted that the market rates, from which the discount rate is derived, have continued to decline in the subsequent period. The Group continues to monitor its pension liabilities on an ongoing basis, including assessing various scenarios that may arise and their potential implications for the business.

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.

	2020		2019	
	Increase/decrease in assumption	Indicative effect on scheme liabilities%	Increase/decrease in assumption	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%	+/-4	0.25%	+/-4
Discount rate	0.25%	-/+6	0.25%	-/+6
Inflation assumption	0.25%	+/-5	0.25%	+/-5
Longevity assumption	1 year	+/-4	1 year	+/-3

## British Gas Services Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

#### 19 Post-retirement benefits (continued)

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

##### Pension scheme assets

The major categories of scheme assets are as follows:

	2020	2019
	Total	Total
	£m	£m
Equities	404	534
Corporate bonds	2,649	2,646
High-yield debt	3,355	2,303
Liability matching assets	3,268	2,505
Property	352	316
Cash pending investment	38	695
Asset-backed contribution assets	670	738
<b>Group pension scheme assets</b>	<b>10,736</b>	<b>9,737</b>
<b>Company share of the above (£'000)</b>	<b>6,171</b>	<b>5,338</b>

##### Defined contribution pension scheme

The total cost charged to income statement of £8.0m (2019: £6.2m) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

#### 20 Capital and reserves

	2020	2019
	£'000	£'000
Allotted and fully paid share capital of the Company		
5,000,003 ordinary shares of £1 each (2019: 5,000,003)	5,000	5,000

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.

##### Retained earnings

The balance classified as retained earnings includes the profits and losses realised by the Company in previous periods that were not distributed to the shareholders of the Company at the reporting date.

## **British Gas Services Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)**

#### **21 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 £3.8m (2019: £5.3m). The fair value of employee share options is the market value of the shares at the award date. The major schemes are described below.

##### **Conditional Share Incentive Plan (CSIP)**

Awards under CSIP (previously known as On Track Incentive Plan) are available to senior executives, senior and middle management. The number of shares awarded is dependent on annual targets for individual targets and business unit financial performance. These shares vest subject to continued employment within the Group in two stages: half after two years, the other half after three years. Leaving prior to the vesting date will normally mean forfeiting rights to the invested share awards. The fair value of the awards is the market price of the shares at the date of the award.

##### **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. The fair value of employee share options is measured using the Black-Scholes model.

#### **22 Dividends**

The Directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2020. No dividends were paid or declared during the year (2019:£nil).

#### **23 Directors' remuneration**

Fees allocated to the Company for services provided by non-executive Directors during the year were £158,438 (2019: £172,453).

The executive Directors were remunerated as employees of Centrica plc group and did not receive any remuneration, for their services as Directors of the Company during the current or preceding financial year. 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 2020 (continued)**

#### **24 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 is Centrica plc, a company registered in England and Wales, which is the only company to include these financial statements in its consolidated financial statements. Copies of the Centrica plc consolidated financial statements may be obtained from [www.centrica.com](http://www.centrica.com).

The registered address of Centrica plc is Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD.

#### **25 Events after the balance sheet date**

##### *Coronavirus (Covid-19)*

In March 2020 the World Health Organisation declared a global pandemic (Covid-19). In the UK the Coronavirus Act 2020 places wide-ranging restrictions on freedom of movement and since the date of reporting at 31 December 2020, further Covid-19 related lockdowns were imposed across the country.

We are focused on looking after the health and safety of our employees and customers and follow relevant advice from the government and health organisations. Depending on prevailing circumstances, the fulfilment of non-essential visits may be rescheduled but service engineers continue to attend emergencies such as no heating or hot water.

Covid-19 has caused widespread disruption to businesses and economic activity including fluctuations in UK and global financial markets. The roll out of vaccines to combat the virus was significantly ramped up by the UK Government in January 2021, and from 8 March restrictions started to lift in line with the government's roadmap, representing very positive developments towards further reducing lockdown restrictions. 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*

Subsequent to the reporting date, the Company's service engineers commenced industrial action in relation to changes to terms and conditions of employment with a series of strike dates in 2021. New terms and conditions were applied on 1 April 2021 and a number of engineers left the Company's employment.