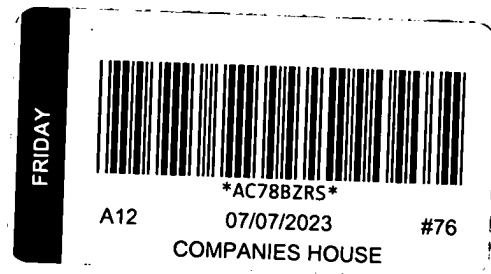


Registration number: 03141243

British Gas Services Limited

Annual Report and Financial Statements
for the Year Ended 31 December 2022



British Gas Services Limited

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British Gas Services Limited

Strategic Report for the Year Ended 31 December 2022

The Directors present their Strategic Report for British Gas Services Limited ('BGSL' or 'the Company') for the year ended 31 December 2022.

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 to BGIL.

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 the relevant items for the Company. BGSL is an independent subsidiary of Centrica plc, and 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 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 of the Company engage with management in setting, approving and overseeing the 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 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

Centrica plc is conscious that decisions made by all Group companies could have an impact on other stakeholders where relevant. The Directors of BGSL understand the Company's business and the evolving environment it operates in, including the challenges of a highly competitive marketplace, regulatory intervention and climate change. By considering and adopting the Group's purpose, vision and values together with its strategic priorities and having processes in place for decision-making ensure the decisions of the Board are consistent with the Group, and appropriate in all circumstances.

The Directors took decisions during 2022 that they believed would best promote Centrica's long-term success for the benefit of its stakeholders as a whole. For instance, the BGSL Board had oversight of British Gas restructuring where it applied to BGSL and BGIL, and the appointment of new regulatory role holders.

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

(b) The interests of the Company's employees

The Directors recognise that the Company's workforce is fundamental to the future growth and success of the Centrica. That success depends on looking after the workforce, including adopting and applying the Group's diversity policy and strategy to promote an inclusive Company culture.

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

The Board is mindful that decisions and oversight often have to balance the differing needs of stakeholders, for example, employee remuneration during the cost-of-living crisis, balanced against profitability.

In 2022, the Board was kept well informed during the annual pay negotiations.

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

Centrica plc recognises the benefits of engaging with a broad range of stakeholders, as developing and delivering our strategy depends on building and maintaining constructive relationships with them all.

The Board's actions continue to ensure that, wherever possible, customers have heating and hot water in extreme winter conditions, with vulnerable customers being prioritised, and ensure customers' annual service visits are in line with their policies.

Given the challenges presented by the cost of living crisis, the Board was satisfied that products are constantly being reviewed to keep them relevant to consumers and provide value.

(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 the Company's impact on the community and environment and the consequences of its decisions in the long term. BGSL has given back to the community through 7,489 hours of volunteering in projects within the community.

BGSL continues to increase the use of electric vehicles across its engineering fleet.

(e) The desirability of the Company to maintain a reputation for high standards of business conduct

The Board follows Centrica Group's 'Our Code' code of conduct when reviewing policies on fraud, whistleblowing and conflicts of interest. All Group employees are subject to this code that sets out the high standards and behaviours we expect from those that work for us or with us. 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 among members of the Company

The company's activities support the wider strategy of the Centrica Group and, owing to the fact the company is a wholly owned subsidiary of Centrica plc, the Directors are required only to balance the interests of corporate shareholders that are themselves wholly owned subsidiaries of Centrica plc rather than any third-party members.

Further information about how the Centrica Group engages with and considers the interests of different key stakeholders can be found on pages 12 to 13, 37 to 38, and 66 to 71 of Centrica plc's Annual Report and Accounts 2022.

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 pages 7, 37, 44 to 45, 56 to 59, 67 and 71 of the Group's Annual Report and Accounts 2022 ('Group accounts').

Stakeholder engagement

Proactive engagement remains a central focus for the Group, which ensures the Directors have regard for the matters set out in Section 172 (1) (a) to (f) of the Act. Further information on stakeholder engagement can be found on pages 12 to 13, 37 to 38, and 66 to 71 of the Group's Annual Report and Accounts 2022. Engaging with stakeholders delivers better outcomes for society and the business. It is fundamental to the Company's long-term success.

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Carbon emissions and energy usage

Carbon emissions and energy usage are not disclosed at a Company level due to exemptions detailed in Para 20A of Schedule 7 of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Carbon emissions and energy usage reporting for the Group is included in the 'People and Planet' section on pages 42-44 of Centrica plc's Annual Report and Accounts 2022. Specific metrics and targets are disclosed in the 'Task Force on Climate-related Financial Disclosures' section on pages 51 to 53 of the Group's Annual Report and Accounts 2022.

Review of the business

BGSL is an insurance intermediary directly authorised and regulated by the FCA. All claims fulfilment and handling activities continued in 2022.

The Company monitors business acquisition, claims fulfilment and claims handling activities, the quality of customer service, and the levels of customer complaints. The Company also applies the customer conduct principles of the FCA in its decision-making process and oversees adherence to those principles.

BGSL is working alongside BGIL to implement the FCA's new Consumer Duty requirements with a focus on continuing to provide good outcomes for our insurance customers.

New product offerings are introduced following appropriate market testing.

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

Results and performance

The results of the Company are set out on pages 17 and 18.

Profit before income tax was £6.5m (2021: £118.3m) after exceptional items credit of £2.9m (2021: credit of £20.4m), finance income of £27.5m (2021: £53.3m).

The exceptional item in the income statement relates to the loss on disposal of assets during the year. Further information can be found in note 6.

After tax loss was £14.0m (2021: Profit of £99.4m) and total comprehensive expense for the year was £18.7m (2021: income of £181.3m) Throughout 2022 there were significant increases and volatility in gilt yields. This led to a considerable fall in the value of assets into which the pension schemes were invested. Pension liabilities were reduced due to an increase in discount rate during the year. These effects created a net actuarial loss (after tax) on defined benefit pension schemes of £4.7m (2021: gain of £81.9m).

Revenue increased slightly by 0.4% from £925m to £928m. However, lower policies in force and the cost of living crisis in 2022 resulted in insurance intermediary revenue reducing by £52m. This is offset by increased revenue from warranty Services, claims handling, other revenue and contracts.

The Profit share commission is based on the BGIL combined operating ratio ('COR'). The COR is the ratio of claims incurred and operating expenses to premiums earned in BGIL. In 2022 COR was 4.6% higher than 2021 at 97.5%.

Under the terms of a contractual arrangement, profit share commission due to the Company is based on the profitability of BGIL. In 2022 those profitability thresholds were not met, and hence no commission was due under the contract (2021: £3.1m).

The financial position of the Company is presented in the Statement of Financial Position on pages 19 to 20. Total equity at 31 December 2022 was £1,259.6m (2021: £1,277.4m).

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Key performance indicators ('KPIs')

The Directors of the Group use a number of KPIs to monitor progress against the Group's strategy. The development, performance and position of the Group, which includes the Company, are disclosed on pages 26-27 of the Group's Annual Report and Accounts 2022, which does not form part of this report. The results of the Company are disclosed in the Directors' Report on page 9.

The Company's key performance indicators are:

	2022	2021
Policies in force at 31 December ('000)	6,815	7,646
Number of reportable customer complaints ('000)	248	339
Profit before taxation (£m)	6	118

Key performance indicators are monitored against the plan and forecast throughout the year. In addition, the business regularly monitors several 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 decreased by 10.9% to 6,815,000 at 31 December 2022 (2021: 7,646,000), including additional warranty and home insurance contracts. The wider insurable home care protection market has contracted as more consumers choose to self-insure, along with longer warranty periods offered on heating products.

Complaint numbers decreased by 27% to 248,000 (2021: 339,000). Customer service levels improved due to a drive in BGSL's engineer recruitment, actively combined with field efficiencies, and improved service visit fulfilment in 2022, resulting in 2.2m completed service visits (2021: 1.8m).

Profit before tax reduced by £112m in 2022. This was driven by level revenue being more than offset by cost increases of £72m due to inflationary linked increases in employee, material, and contractor costs. A significant release of a provision in 2021 resulted in a £20m net credit to exceptional items compared to a credit of £3m in 2022. Net finance income dropped by £25m due to adopting market-based rates to calculate interest income on amounts owed by group undertakings.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with those of the Centrica plc group (the 'Group') and are not managed separately. The principal risks and uncertainties of the Group, which include those of the Company, are disclosed on pages 28-33 of the Group's Annual Report and Accounts 2022, which does not form part of this report.

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.

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

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.

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 company's market, from a shift away from gas to other forms of heating such as heat pumps. The Company expects to play a role in the transition to a low carbon economy and evaluation of the risks and opportunities this presents 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.

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

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

In 2022 the Company actively recruited skilled and apprentice engineers increasing staffing levels. In September, we also announced our commitment to take on 3,500 apprentices over the next ten years. These apprentices will become more productive over time.

However, there is a broader issue of a lack of skilled engineer workforce in the UK impacting recruitment which is why our training academies are so important.

The Company seeks to maintain an effective relationship with trade unions during pensions and pay negotiations to mitigate the risk of industrial action.

Cost of living

The cost-of-living crisis in the UK triggered by high inflation rates, higher utility prices and higher interest rates has a possible impact on the BGSL customer base as it is understood that more customers are choosing to self-insure. This has led to lower commissions and fees generated for BGSL.

The Group has actively assisted its workforce during the 2022 cost of living crisis by working with its associated unions to offer and agree with a competitive pay deal that utilises the wider group profitability in 2022.

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

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

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 2021 was finalised with the Pension Trustees which reported a technical provisions' deficit. The Company made a funding contribution of £73.5m towards this deficit in 2022 (2021: £48.8m). Defined benefit pension schemes had a net IAS 19 surplus of £415.6m at 31 December 2022 (2021: £342.9m).

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 the commission, claims fulfilment and claims handling receivables which mitigate 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.

Interest rate risk

BGSL has interest-bearing assets in the form of amounts owed by Group undertakings that earn interest rates 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 support 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 exchange rates.

Inflation risk

The Company is currently operating in a high inflationary environment. Inflationary increases to claims costs are slightly mitigated by the fixed agreement with suppliers under which contractually fixed costs per product. While BGSL is exposed to higher risk costs than anticipated due to inflation, management is focused on monitoring the impact of inflation for both wages and spare parts.

British Gas Services Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

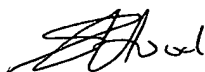
Future developments

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.

In March 2023, BGSL entered into a new long-term strategic partnership with TVS Supply Chain Solutions to transform the Company's supply chain operation as a key step of the strategy to fix and grow the business. It is vital that the Company modernises its operations to position it for growth and be a sustainable business for the future. To do so, technology and warehouses need to be upgraded and require significant investment.

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

Approved by the Board on 12 June 2023 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 2022

The Directors present their report and the audited financial statements for the year ended 31 December 2022.

Directors of the Company

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

A H Bowe (Non-Executive)
R A Phipps (Non-Executive Chairman)
S Ruparelia (Non-Executive)
J Siber (Chief Executive Officer; appointed 21 July 2022)
M L Thomas (Chief Financial Officer; appointed 20 April 2023)
S R Vann (Non-Executive)

M J Bateman (resigned 31 January 2022)

S D Phillips (resigned 1 December 2022)

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 that the Company fully supports. BGSL has taken the exemption from Streamlined Energy and Carbon Reporting ('SECR') disclosures as these have been disclosed in the Centrica plc group accounts, on page 35.

Purpose and leadership principle

BGSL has a well-developed and defined purpose as described in principal activities on page 1; the Board leads this. The Board also ensures its values and culture align with that purpose, such as employment practices, risk management and compliance functions, and a clear strategy to generate long-term sustainable value.

Board composition principle

BGSL Board has a balance of executives and independent non-executives and delegates functions to committees, each with an effective chair with a balance of skills, background, experience and knowledge.

Director responsibilities principle

BGSL directors adhere to the corporate governance practices established and maintained, providing clear lines of accountability and responsibility to support effective decision-making, along with Committees with clear terms considering matters such as financial reporting, risk, succession and remuneration. Directors have established internal processes to ensure systems and controls operate effectively, such as KPIs, workforce data, consumer data and board papers. The Directors:

- Provide leadership of the common regulated business;
- Operate within a framework of prudent and effective risk management and controls;
- Set a strategy and risk appetite for itself, within the agreed appetite and policies of Centrica plc;
- Ensure the direction and performance of the businesses operate within that strategy and risk appetite; and
- Ensure it is managed competently and in accordance with legal and regulatory expectations.

Opportunity and risk principle

BGSL manages this principle through appropriate risk management systems, defined roles and responsibilities, and identified principal risks and regular reporting. The BGSL Board also considers and assesses how the company creates and preserves value over the long term.

Remuneration principle

BGSL applies appropriate remuneration levels to secure and retain high-quality directors, senior management and the workforce. Group policies on remuneration structures take into account the pay and conditions of the wider workforce and matters such as the gender pay gap. BGSL Board has delegated a committee to oversee remuneration for directors and senior managers.

British Gas Services Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

Stakeholder relationships and engagement principle

The BGSL Board considers how the company's activities impact both current and future stakeholders. BGSL Board seeks to understand and collaborate with stakeholders to grow the business for customers and society over the long term and uses formal and informal channels to engage with stakeholders.

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

Results and dividends

The results of the Company are set out on page 17. The loss for the financial year ended 31 December 2022 is £14.0m (2021: £99.4m profit).

The Company did not pay an interim dividend during the year (2021: £nil) and the Directors do not recommend the payment of a final dividend (2021: £nil).

Objectives and policies

BGSL is the UK's largest domestic central heating and gas appliance service company and is authorised and regulated by the FCA to carry out insurance distribution activities. In 2022, the Company continued to carry out activities only in the UK, primarily in the private residential sector.

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

Research and development

During 2022, the Company continued to develop business software to improve its interactions with customers further.

Going concern

The Board has approved a three-year operating plan that shows the Company's profitability and success in the long term. As such the Company should be able to meet its liabilities as they fall due for the foreseeable future, and therefore the financial statements have been prepared on a going concern basis.

The Directors also recognise the importance to the Company of its relationship with BGIL. They are satisfied that BGIL will continue as a going concern and will meet its regulatory solvency capital obligations with adequate liquidity.

The Directors have received confirmation that provided the Company remains part of the Group, Centrica plc will support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

The full Centrica Group results were released on 16 February 2023. These demonstrated a resilient financial performance despite a difficult energy supply situation, increases in wholesale gas prices, and the ongoing challenges caused by cost of living crisis and high inflation.

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 2022, the average employee headcount was 8,013 all working in the UK (2021: 7,837).

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.

British Gas Services Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

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

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

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

In response to the UK's Modern Slavery Act 2015, the Group has put in place a detailed action plan to monitor and reduce the risk of forced or compulsory labour in the business and supply chain through initiatives such as training and on-the-ground ethical site inspections.

Colleague engagement

The Group's Board acknowledges that colleague engagement is critical to our success. 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 is one where everyone has a voice, is based on merit and where colleagues feel empowered and able to succeed.

Further information on colleague engagement can be found on page 2 of these accounts and page 59 of the Group's Annual Report and Accounts 2022.

Centrica seeks to create an environment where employees can reach their full potential and be at their best. We can retain and develop the best talent to continue to deliver for our stakeholders. Our investment in people insight, increasing surveys from annually to quarterly, enables the Directors to make better people decisions more quickly.

The Company remains committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, email and broadcasts at key points in the year.

Directors' and officers' liability

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

Events after the reporting period

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

British Gas Services Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

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.

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 12 June 2023 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 2022 and of its loss 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 24.

The financial reporting framework that has been applied in their preparation is applicable law, and United Kingdom adopted international accounting standards.

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:

- Obtained and reviewed 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 20 months following 20 March 2023;
- evaluating management's going concern assessment; 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 regulator, 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.

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.

British Gas Services Limited

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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 Company's documentation of their 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, including those that are specific to the Company's business sector.

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 UK Companies Act, pensions legislation, 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 include 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.

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.

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.

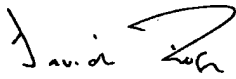
We have nothing to report in respect of these matters.

British Gas Services Limited

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

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.



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

12 June 2023

British Gas Services Limited

Income Statement for the Year Ended 31 December 2022

	Note	2022 £'000	2021 £'000
Revenue	3	928,354	924,876
Cost of sales	4	<u>(638,686)</u>	<u>(589,520)</u>
Gross profit		289,668	335,356
Operating costs	4	(313,635)	(290,723)
Exceptional items	6	<u>2,900</u>	<u>20,405</u>
Operating (loss)/profit		(21,067)	65,038
Net finance income	7	<u>27,528</u>	<u>53,264</u>
Profit before taxation		6,461	118,302
Taxation on profit	9	<u>(20,495)</u>	<u>(18,916)</u>
(Loss)/profit for the year		<u><u>(14,034)</u></u>	<u><u>99,386</u></u>

The above results were derived from continuing operations.

British Gas Services Limited

Statement of Comprehensive Income for the Year Ended 31 December 2022

	Note	2022 £'000	2021 £'000
(Loss)/profit for the year		(14,034)	99,386
Items that will not be reclassified to the Income Statement			
Net actuarial gain/(loss) on defined benefit pension schemes	18	1,045	123,973
Current tax on items taken to Other Comprehensive Income ('OCI')	9	18,298	9,272
Deferred tax on items taken to OCI	9	<u>(24,029)</u>	<u>(51,314)</u>
Other comprehensive (expense)/income		<u>(4,686)</u>	<u>81,931</u>
Total comprehensive (expense)/income for the year		<u>(18,720)</u>	<u>181,317</u>

British Gas Services Limited

Statement of Financial Position as at 31 December 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Property, plant and equipment	10	80,703	58,112
Intangible assets	11	75,971	67,285
Investments in subsidiaries	12	150	150
Trade and other receivables	13	1,663	1,296
Retirement benefit assets	18	415,647	342,881
		<u>574,134</u>	<u>469,724</u>
Current assets			
Trade and other receivables	13	557,789	605,229
Inventories	14	41,820	32,845
Cash and cash equivalents		425,106	452,544
		<u>1,024,715</u>	<u>1,090,618</u>
Total assets		<u>1,598,849</u>	<u>1,560,342</u>
Current liabilities			
Trade and other payables	15	(168,658)	(143,439)
Current tax liabilities		-	(3,872)
Provisions for other liabilities and charges	17	(10,866)	(16,510)
Lease liabilities	16	(18,575)	(15,848)
		<u>(198,099)</u>	<u>(179,669)</u>
Non-current liabilities			
Deferred tax liabilities	9	(88,374)	(66,047)
Provisions for other liabilities and charges	17	(8,636)	(9,866)
Lease liabilities	16	(44,135)	(27,333)
		<u>(141,145)</u>	<u>(103,246)</u>
Net assets		<u>1,259,605</u>	<u>1,277,427</u>

The notes on pages 22 to 46 form an integral part of these financial statements.

British Gas Services Limited

Statement of Financial Position as at 31 December 2022 (continued)

	Note	2022 £'000	2021 £'000
Equity			
Share capital	19	5,000	5,000
Share premium	19	700,000	700,000
Retained earnings		1,271,151	1,285,185
Other reserves		56,308	55,410
Actuarial gains and losses reserve		<u>(772,854)</u>	<u>(768,168)</u>
Total equity		<u>1,259,605</u>	<u>1,277,427</u>

The financial statements on pages 17 to 46 were approved and authorised for issue by the Board of Directors on 12 June 2023 and signed on its behalf by:



.....
M L Thomas (Chief Financial Officer)
Director

Company number 03141243

British Gas Services Limited

Statement of Changes in Equity for the Year Ended 31 December 2022

	Share capital £'000	Share premium £'000	Retained earnings £'000	Actuarial reserve £'000	Other reserves £'000	Total equity £'000
At 1 January 2022	5,000	700,000	1,285,185	(768,168)	55,410	1,277,427
Loss for the year	-	-	(14,034)	-	-	(14,034)
Other comprehensive income	-	-	-	(4,686)	-	(4,686)
Total comprehensive income	-	-	(14,034)	(4,686)	-	(18,720)
Equity settled share based payments	-	-	-	-	2,475	2,475
Exercise of awards	-	-	-	-	(4,184)	(4,184)
Deferred tax on share based payments	-	-	-	-	2,607	2,607
At 31 December 2022	<u>5,000</u>	<u>700,000</u>	<u>1,271,151</u>	<u>(772,854)</u>	<u>56,308</u>	<u>1,259,605</u>

	Share capital £'000	Share premium £'000	Retained earnings £'000	Actuarial reserve £'000	Other reserves £'000	Total equity £'000
At 1 January 2021	5,000	700,000	1,185,799	(850,099)	57,707	1,098,407
Profit for the year	-	-	99,386	-	-	99,386
Other comprehensive expense	-	-	-	81,931	-	81,931
Total comprehensive income/(expense)	-	-	99,386	81,931	-	181,317
Equity settled share based payments	-	-	-	-	2,697	2,697
Exercise of awards	-	-	-	-	(5,246)	(5,246)
Deferred tax on share based payments	-	-	-	-	252	252
At 31 December 2021	<u>5,000</u>	<u>700,000</u>	<u>1,285,185</u>	<u>(768,168)</u>	<u>55,410</u>	<u>1,277,427</u>

The notes on pages 22 to 46 form an integral part of these financial statements.
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British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 General information

British Gas Services Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in the United Kingdom under the Companies Act 2006 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 8.

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 UK adopted International Financial Reporting Standards ('Adopted IFRSs'), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company financial statements are presented in pounds sterling which is the functional currency of the Company.

Changes to accounting policies

From 1 January 2022, the following standards and amendments are effective in the Company's financial statements:

- Amendment to IFRS 3 'Business Combinations', reference to the 'Conceptual Framework';
- Amendments to IAS 37: 'Provisions, Contingent Liabilities and Contingent Assets, cost of fulfilling a contract'; and
- Amendments to IAS 16: 'Property, Plant and Equipment', sale proceeds before intended use; and
- Annual improvements to IFRS 2018-2020.

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 1: 'Presentation of Financial Statements', effective from 1 January 2023;
- Amendments to IAS 8: 'Accounting policies, Changes in Accounting Estimates and Errors', effective from 1 January 2023;
- Amendments to IAS 12: 'Income taxes', effective from 1 January 2023; and
- Amendments to IFRS 16 'Leases'; effective from 1 January 2024.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions

In these financial statements, as a qualifying entity the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- 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;
- disclosures in respect of capital management; and
- disclosures in respect of share-based transactions.

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.

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 Board has approved a three-year operating plan that shows the Company's profitability and success in the long term. As such the Company should be able to meet its liabilities as they fall due for the foreseeable future, and therefore the financial statements have been prepared on a going concern basis.

The Directors also recognise the importance to the Company of its relationship with BGIL. They are satisfied that BGIL will continue as a going concern and will meet its regulatory solvency capital obligations with adequate liquidity.

The Directors have received confirmation that provided the Company remains part of the Group, Centrica plc will support the Company for at least one year after the financial statements were authorised for issue and that amounts owed to Group undertakings will not be required to be repaid for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

The full Centrica Group results were released on 16 February 2023. These demonstrated a resilient financial performance despite a difficult energy supply situation, increases in wholesale gas prices, and the ongoing challenges caused cost of living crisis and high inflation.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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;

Finance costs

Interest expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a borrowing rate representative of the weighted average borrowing rate is used. Financing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

- 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 26.

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.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Government Grant Accounting

Government grants are transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government assistance is designed to provide an economic benefit that is specific to an entity qualifying under certain criteria. The Company recognises government grants only when there is reasonable assurance that the Company will comply with the conditions attached to them and the grant will be received. Government grants are recognised in profit and loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to assets are deducted from the carrying amount of the asset. 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'.

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.

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.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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.

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.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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.

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

Cloud computing arrangements

The Company benefits from services received under Cloud Computing Arrangements. These contracts permit the Company to access vendor-hosted software and platform services over the term of the arrangement. The Company does not control the underlying assets in these arrangements and costs are expensed as incurred. The Company also incurs implementation costs in respect of these contracts. Implementation costs are capitalised as intangible assets where costs meet the definition and recognition criteria of an intangible asset under IAS 38. Such costs typically relate to software coding which is capable of providing benefits to the Group on a standalone basis. Other implementation costs, primarily relating to the configuration and customisation of the cloud software solution, are assessed to determine whether the implementation activity relating to these costs is distinct from the Cloud Arrangement, in which case costs are expensed as the activity occurs. If the configuration and customisation costs relate to an activity that is integral to the Cloud Arrangement such that the activity is received over the term of the Cloud Arrangement, costs are recognised as a prepayment and expensed over the term of the Cloud Arrangement.

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.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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

The cost of inventories held comprises raw materials and other consumables. 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.

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.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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.

(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.

An impairment is recognised on financial assets if credit losses are expected. These are calculated using the simplified approach as allowable under IFRS 9, and losses arising from impairment are recognised in the income statement in other operating expenses.

(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.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

(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.

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. Sensitivity analysis can be found in note 18.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Revenue

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

	2022	2021
	£'000	£'000
Services, claims handling and other revenue	426,795	390,277
Insurance intermediary commission	425,800	478,092
Revenue from warranty and other contracts	55,422	39,282
On demand revenue	20,337	17,225
	<u>928,354</u>	<u>924,876</u>

Services, claims handling and other revenue comprises principally income from BGIL for claims fulfilment and claims handling activities. All revenue is earned in the UK.

Revenue increased slightly by 0.4% from £925m to £928m. However, lower policies in force and the cost of living crisis in 2022 resulted in insurance intermediary revenue reducing by £52m. This is offset by increased revenue from warranty Services, claims handling, other revenue and contracts.

4 Analysis of costs by nature

	2022			2021		
	Cost of sales	Operating costs	Total costs	Cost of sales	Operating costs	Total costs
	£'000	£'000	£'000	£'000	£'000	£'000
Employee costs	309,910	159,781	469,691	287,362	132,807	420,169
Materials	89,558	-	89,558	78,727	-	78,727
Contractor, consultancy, other professional services	188,444	17,876	206,320	177,489	15,815	193,304
Advertising and marketing	-	21,840	21,840	-	20,711	20,711
Depreciation and amortisation	22,270	18,626	40,896	19,713	21,270	40,983
Other costs	28,504	95,512	124,016	26,229	100,120	126,349
	<u>638,686</u>	<u>313,635</u>	<u>952,321</u>	<u>589,520</u>	<u>290,723</u>	<u>880,243</u>
Total costs by nature						

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

5 Employees' costs

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

	2022	2021
	£'000	£'000
Wages and salaries	343,441	305,059
Social security costs	36,929	30,160
Pension and other post-employment benefits	86,846	82,254
Share-based payment expenses	2,475	2,696
	<u>469,691</u>	<u>420,169</u>

The average number of employees who carry out work for the company (including Directors) during the year, analysed by category was as follows:

	2022	2021
	Headcount	Headcount
Field engineers	4,463	4,560
Administration and support	3,550	3,277
	<u>8,013</u>	<u>7,837</u>

6 Exceptional items

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

	2022	2021
	£'000	£'000
Exceptional items - restructure credit	(4,308)	(21,053)
Loss on disposal of property, plant and equipment	1,408	511
Exceptional items - impairment of property, plant and equipment	-	137
	<u>(2,900)</u>	<u>(20,405)</u>

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

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

7 Net finance income

Finance income

	2022	2021
	£'000	£'000
Interest income from amounts owed by Group undertakings	11,170	39,700
Net interest income on pension scheme assets and liabilities	<u>17,175</u>	<u>14,151</u>
Total finance income	<u>28,345</u>	<u>53,851</u>
Interest expense on lease liabilities	<u>(817)</u>	<u>(587)</u>
Total finance costs	<u>(817)</u>	<u>(587)</u>
Net finance income	<u>27,528</u>	<u>53,264</u>

Interest income from amounts owed by group undertakings has been significantly reduced due to changes in the group's internal interest rates, which is now linked to the prevailing market rate. In contrast, in prior years, this had been linked to Centrica's overall debt cost, which included historical rates. It has been agreed at Centrica Group that current market rates are the most appropriate arm's length interest rates to use.

8 Auditor's remuneration

The Company paid £165,000 (2021: £123,600) to its auditor in respect of the audit of the financial statements. The auditor did not carry out any non-audit services during 2022 (2021: £nil).

9 Income tax

Tax credited/(charged) in the Income Statement

	2022	2021
	£'000	£'000
Current taxation		
UK corporation tax at 19% (2021: 19%)	18,298	9,272
UK corporation tax adjustment to prior periods	<u>1,292</u>	<u>(662)</u>
	<u>19,590</u>	<u>8,610</u>
Deferred taxation		
Origination and reversal of temporary differences	(312)	11,337
Changes in tax rates	(1,462)	(1,304)
Arising from previously unrecognised tax loss, tax credit, or temporary difference of prior period	<u>2,679</u>	<u>273</u>
Total deferred taxation	<u>905</u>	<u>10,306</u>
Total income tax expense	<u>20,495</u>	<u>18,916</u>

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

9 Income tax (continued)

The UK rate of corporation tax for the year ended 31 December 2022 was 19% (2021: 19%). The rate of corporation tax has increased to 25% with effect from 1 April 2023. As at 31 December 2022 the deferred tax balances included in these financial statements are based on the enacted rate of corporation tax having regard to their reversal profiles.

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:

	2022	2021
	£'000	£'000
Profit before tax	<u>6,461</u>	<u>118,302</u>
Tax expense at standard UK corporation tax rate of 19% (2021: 19%)	1,228	22,477
Net expenses non-deductible for tax purposes	41	74
Adjustment for prior periods	3,970	(390)
Effect of tax rate changes	(1,462)	(1,304)
Deferred tax movement - share based payments	(263)	(75)
Effect of group relief	16,981	(1,978)
Deferred tax movement - pensions	<u>-</u>	<u>112</u>
Total income tax expense	<u>20,495</u>	<u>18,916</u>

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

9 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 2022	4,635	1,056	(71,738)	(66,047)
(Charged)/credited to the Income Statement	(204)	170	1,808	1,774
Charged to other comprehensive income	-	-	(24,029)	(24,029)
Prior period adjustments	(2,826)	-	147	(2,679)
To equity	-	2,607	-	2,607
31 December 2022	<u>1,605</u>	<u>3,833</u>	<u>(93,812)</u>	<u>(88,374)</u>

	Accelerated tax depreciation £'000	Other timing differences including losses carried forward £'000	Retirement benefit obligation and other provisions £'000	Total £'000
1 January 2021	4,172	133	(8,984)	(4,679)
(Charged)/credited to the Income Statement	736	671	(11,440)	(10,033)
Charged to other comprehensive income	-	-	(51,314)	(51,314)
Prior period adjustments	(273)	-	-	(273)
To equity	-	252	-	252
31 December 2021	<u>4,635</u>	<u>1,056</u>	<u>(71,738)</u>	<u>(66,047)</u>

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

10 Property, plant and equipment

	Right of use assets £'000	Plant and equipment £'000	Assets under construction £'000	Total £'000
Cost				
At 1 January 2022	124,965	44,319	885	170,169
Additions	43,604	1,956	8,094	53,654
Retirement	(18,955)	(10,185)	-	(29,140)
Transfers	-	2,147	(1,843)	304
At 31 December 2022	<u>149,614</u>	<u>38,237</u>	<u>7,136</u>	<u>194,987</u>
Accumulated depreciation and impairment				
At 1 January 2022	(72,871)	(39,186)	-	(112,057)
Charge for the year	(28,283)	(2,972)	-	(31,255)
Retirement	18,843	10,185	-	29,028
At 31 December 2022	<u>(82,311)</u>	<u>(31,973)</u>	<u>-</u>	<u>(114,284)</u>
Net book value				
At 31 December 2022	<u>67,303</u>	<u>6,264</u>	<u>7,136</u>	<u>80,703</u>
At 31 December 2021	<u>52,094</u>	<u>5,133</u>	<u>885</u>	<u>58,112</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 2022 (continued)

11 Intangible assets

	Internally generated software development costs £'000	Assets under construction £'000	Total £'000
Cost or valuation			
At 1 January 2022	124,345	44,966	169,311
Additions	-	19,757	19,757
Retirement	(37,823)	(763)	(38,586)
Transfers	1,379	(1,379)	-
At 31 December 2022	<u>87,901</u>	<u>62,581</u>	<u>150,482</u>
Amortisation			
At 1 January 2022	(102,026)	-	(102,026)
Amortisation	(9,642)	-	(9,642)
Disposals and surrenders	37,157	-	37,157
At 31 December 2022	<u>(74,511)</u>	<u>-</u>	<u>(74,511)</u>
Carrying amount			
At 31 December 2022	<u>13,390</u>	<u>62,581</u>	<u>75,971</u>
At 31 December 2021	<u>22,319</u>	<u>44,966</u>	<u>67,285</u>

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

Software assets that were being developed internally but will not be brought into use have been impaired.

12 Investments in subsidiaries

Investments classified as non-current

Shares in group undertakings (subsidiaries)

	£'000
At 1 January 2022	<u>150</u>
At 31 December 2022	<u>150</u>

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 2022 (continued)

12 Investments in subsidiaries (continued)

Details of the subsidiaries as at 31 December 2022 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%

13 Trade and other receivables

	2022		2021	
	Current £'000	Non-current £'000	Current £'000	Non-current £'000
Amounts owed by Group undertakings	544,751	-	591,448	-
Prepayments	8,276	-	8,791	-
Other receivables	2,777	-	2,600	-
Contract related assets	<u>1,985</u>	<u>1,663</u>	<u>2,390</u>	<u>1,296</u>
	<u>557,789</u>	<u>1,663</u>	<u>605,229</u>	<u>1,296</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 0.35% and 2.72% per annum during 2022 (2021: 3.61% and 4.42%). The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

On 30 December 2022, Centrica plc paid £420m (2021: £450m) thereby reducing the amount owed to BGSL. This cash was subsequently repaid on 3 January 2023.

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

14 Inventories

	2022 £'000	2021 £'000
Raw materials and consumables	<u>41,820</u>	<u>32,845</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 2022 (continued)

15 Trade and other payables

	2022	2021
	£'000	£'000
Trade payables	72,639	57,072
Accrued expenses	64,537	46,196
Amounts owed to Group undertakings	20,493	25,040
Social security and other taxes	10,464	7,990
Bank overdraft	525	7,141
	<u>168,658</u>	<u>143,439</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. The ultimate parent undertaking bears interest charges payable on the bank overdraft during the year. There is no material difference between the fair value of the Company's borrowing and its book value.

16 Lease liabilities

Leases included in creditors

	2022	2021
	£'000	£'000
Current portion of long term lease liabilities	18,575	15,848
Long term lease liabilities	44,135	27,333
	<u>62,710</u>	<u>43,181</u>

Lease liabilities maturity analysis

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

	2022	2021
	£'000	£'000
Less than one year	18,728	15,951
2 years	16,303	8,981
3 years	14,719	7,393
4 years	9,606	6,007
5 years	4,578	4,276
6 years	1,130	1,297
Total lease liabilities (undiscounted)	<u>65,064</u>	<u>43,905</u>

Total cash outflow for leases during 2022 was £25.6m (2021: £24.3m).

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

17 Provisions for other liabilities and charges

	Restructuring £'000	Employee benefits £'000	Onerous contracts £ 000	Total £'000
At 1 January 2022	25,942	433	-	26,375
Charged to the income statement	-	330	8,855	9,185
Unused provision reversed to the income statement	(2,388)	-	-	(2,388)
Provisions used	<u>(13,299)</u>	<u>(371)</u>	<u>-</u>	<u>(13,670)</u>
At 31 December 2022	<u>10,255</u>	<u>392</u>	<u>8,855</u>	<u>19,502</u>
Non-current liabilities	<u>1,932</u>	<u>348</u>	<u>6,356</u>	<u>8,636</u>
Current liabilities	<u>8,323</u>	<u>44</u>	<u>2,499</u>	<u>10,866</u>

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

18 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.

Impact of changing material assumptions

		2022		2021
	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	1.00%	+1/-2	0.25%	+/-0
Rate of increase in pensions in payment and deferred pensions	1.00%	+14/-12	0.25%	+/-4
Discount rate	1.00%	-15/+19	0.25%	-/+5
Inflation assumption	1.00%	+15/-12	0.25%	+/-5
Longevity assumption	1 year	+/-2	1 year	+/-4

1% has been used for sensitivity analysis this year as opposed to 0.25% in the prior year, due to the quantum of market rate movements during the year which mean it is considered that 1% is a more appropriate measure for 2022.

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

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

18 Post-retirement benefits (continued)

Reconciliation of scheme assets and liabilities

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

	2022			2021		
	Assets £'000	Liabilities £'000	Total £'000	Assets £'000	Liabilities £'000	Total £'000
1 January	6,761,456	(6,418,575)	342,881	6,171,055	(6,118,563)	52,492
Items included in the Income Statement:						
Current service cost	-	(82,438)	(82,438)	-	(81,259)	(81,259)
	-	-	-	-	-	-
Termination benefits	-	1,920	1,920	-	36,996	36,996
Interest income/(expense)	134,486	(117,311)	17,175	103,645	(89,494)	14,151
Other movements:						
Re-measurement gains/(losses)	(2,612,422)	2,613,467	1,045	455,796	(331,823)	123,973
Employer contributions ⁱ	135,064	-	135,064	196,528	-	196,528
Plan participants contributions	1,318	(1,318)	-	1,416	(1,416)	-
Benefits paid from schemes	(156,756)	156,756	-	(166,984)	166,984	-
Transfers from provisions for other liabilities and charges	-	-	-	-	-	-
31 December	<u>4,263,146</u>	<u>(3,847,499)</u>	<u>415,647</u>	<u>6,761,456</u>	<u>(6,418,575)</u>	<u>342,881</u>

ⁱ Employer contributions include £73.5m of incremental deficit reduction contributions (2021: £48.8m).

Presented in the Statement of Financial Position as:

	2022 £'000	2021 £'000
Retirement benefit assets	<u>415,647</u>	<u>342,881</u>
	<u>415,647</u>	<u>342,881</u>

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Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

18 Post-retirement benefits (continued)

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

	2022 £'000	2021 £'000
Returns on plan assets, excluding interest income	(2,612,422)	455,796
Experience loss arising on the scheme liabilities	(291,076)	(107,260)
Changes in assumptions underlying the present value of the schemes' liabilities	<u>2,904,543</u>	<u>(224,563)</u>
Actuarial gain recognised in reserves before adjustment for taxation	1,045	123,973
Cumulative actuarial loss recognised in reserves at 1 January, before adjustment for taxation	<u>(925,530)</u>	<u>(1,049,503)</u>
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	<u><u>(924,485)</u></u>	<u><u>(925,530)</u></u>

The cumulative actuarial loss of £924.5m (2021: £925.5m) above is shown net of deferred tax in the statement of financial position at £772.9m (2021: £768.2m).

Pensions scheme contributions

Note 22 to the Group accounts provides details of the triennial review currently being undertaken based on the position at 31 March 2021 in respect of the UK Registered Pension Schemes and the asset-backed contribution arrangements.

The Company estimates that it will pay £42.0m of employer contributions during 2023 at an average rate of 21% of pensionable pay together with contributions via the salary sacrifice arrangement of £21.0m.

Pension scheme assets

The major categories of scheme assets are as follows:

	2022 Total £m	2021 Total £m
Equities	505	482
Corporate bonds	24	2,424
High-yield debt	1,437	3,917
Liability matching assets	4,178	3,319
Property	366	439
Cash pending investment	205	85
Asset-backed contribution assets	<u>527</u>	<u>600</u>
Group pension scheme assets	<u><u>7,242</u></u>	<u><u>11,266</u></u>
Company share of the above	<u><u>4,263</u></u>	<u><u>6,761</u></u>

Defined contribution pension scheme

The total cost charged to income statement of £15.0m (2021: £11.1m) represents contributions payable to these schemes by the Company at rates specified in the rules of the scheme.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

19 Capital and reserves

The ordinary shares have the rights and restrictions as set out in the Articles of Association of the Company.

	2022	2021
	£'000	£'000
Allotted and fully paid share capital of the Company		
5,000,003 ordinary shares of £1 each (2021: 5,000,003)	5,000	5,000

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.

20 Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. The Company participates in five employee share schemes which gave rise to a charge of £2.5m (2021: £2.7m). 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 on the date of the award.

Restricted Share Scheme (RSS)

Participation in RSS is determined on a case by case basis, at the discretion of management, and in 2022 an award was given to employees who otherwise would have been eligible for a cash bonus under the CSIP scheme, known as the Retention Share Award.

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 on the date of the award.

British Gas Services Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

20 Share-based payments (continued)

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. In 2020 the Group issued the last Sharesave invitation and no further invitations are planned.

Share Incentive Plan (SIP)

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

Profit Share Award

The Profit Share Award is awarded annually and the value of the award will be decided at the end of each financial year and will be primarily based on the Group's performance in the previous financial year. The number of shares awarded will be based on the average share price for the three working days prior to the award grant date. All employees employed by a Centrica plc participating company on 31 December in the year before the date of grant and employed on the date of grant are eligible to receive the Profit Share Award. These shares have a three year vesting period and the shares are all held in trust. Leaving prior to vesting date will normally mean forfeiting rights to the invested share awards.

21 Dividends

The Directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2022. No dividends were paid or declared during the year (2021:£nil).

22 Directors' remuneration

Fees allocated to the Company for services provided by non-executive Directors during the year were £133,750 (2021: £146,596).

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 2022 (continued)

23 Parent and ultimate parent undertaking

The immediate parent undertaking is GB Gas Holdings Limited, a company registered in England and Wales.

The ultimate parent undertaking is Centrica plc, a company registered in England and Wales, which is the only company to include these financial statements in its consolidated financial statements. Copies of the Centrica plc consolidated financial statements may be obtained from www.centrica.com.

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

24 Events after the balance sheet date

In March 2023, Centrica entered into a new long-term strategic partnership with TVS Supply Chain Solutions to transform the Group's supply chain operation as a key step of the strategy to fix and grow the business. It is vital that the Company modernises its operations to position it for growth and be a sustainable business for the future. To do so, technology and warehouses need to be upgraded and require significant investment over next two years.

The Directors are not aware of any other significant post-balance sheet events that require disclosure within these financial statements.