

British Standards Institution



BSI Group
Annual Review & Summary Financial Statements 2002

shape the future

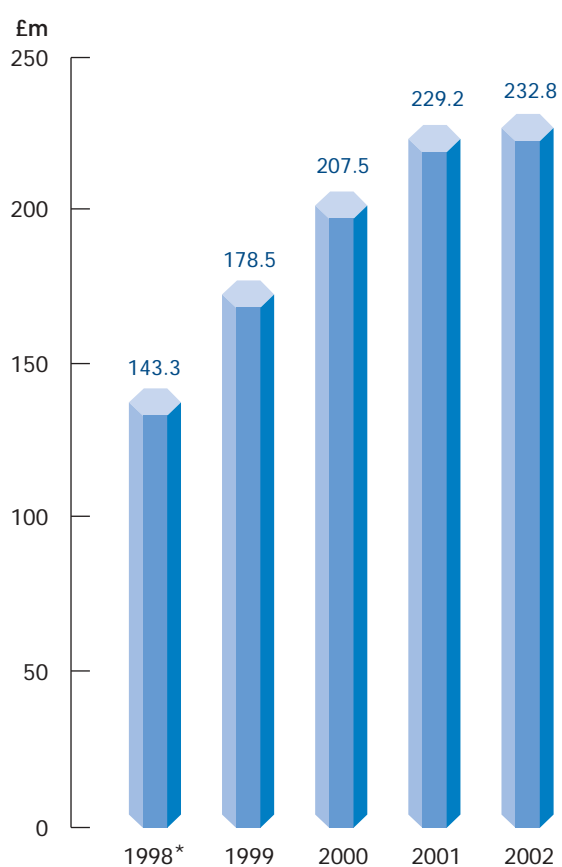


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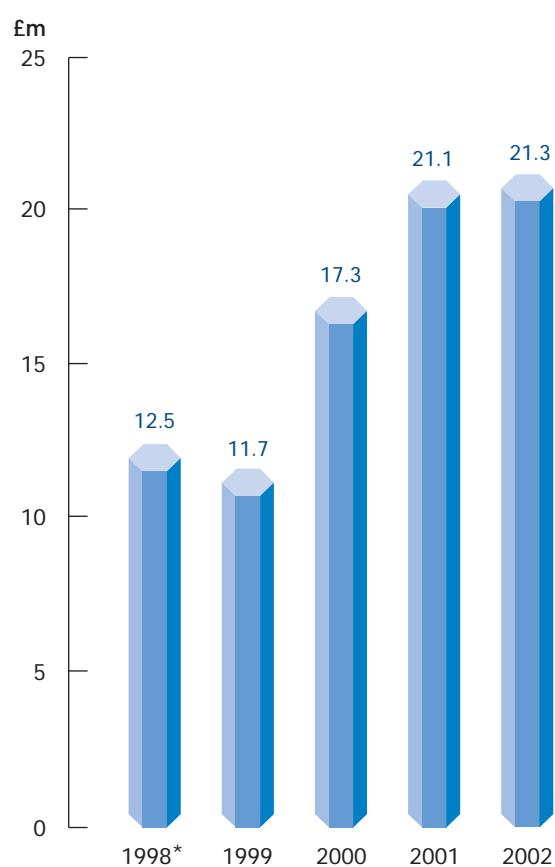
2 Financial Highlights

Turnover (restated)



*Unaudited as to January to March

Operating Profit (including associates but before goodwill and exceptional items)





• Key BSI locations

Principal Activities

3



- Facilitating the development and publication of national and international standards

- Sale and distribution of standards and information related to standards



- Product testing and product certification

- Assessment of management systems



- Inspection and verification of commodities and other goods



4 Chairman's Statement

I took over the chairmanship of the BSI Group in July, succeeding Vivian Thomas CBE who had served as Chairman with distinction for nearly eleven years. Vivian, who also retired from the Board, had overseen the rapid growth of BSI internationally and his contribution to the success of the Group cannot be underestimated. We would like to thank him for his stimulating enthusiasm and his decisive leadership that ensured that BSI became the global brand that it is today.

2002 was a year of growth and expansion for the BSI Group. At the turn of the year the acquisition of KPMG Quality Registrars' North American ISO management systems certification business made BSI the leading provider of management systems registration in North America. Further investment in Asia, the Middle East, Russia, Ukraine and Central America ensured that the Group's international expansion continued apace. The Group's global standing has never been higher.

The Group has opened new Management Systems offices in

Seoul, Osaka, Dubai and Hong Kong, where the BSI Management Systems Asia hub is now established. Also opened over the year have been new BSI Inspectorate laboratories in the Middle East, Brazil, Singapore, Bahamas and Panama.

I am pleased to report that this investment has started to bear fruit and is reflected in strong results for the year, despite a turbulent period for international trade in the wake of the 11 September 2001 attacks in the USA. The Group's turnover for 2002 was £232.8 million with operating profits (including associates but excluding exceptionals and goodwill amortisation) at £21.3 million. These results are a credit to the management and staff and I warmly thank them all for their efforts.

During the year the Group completed its brand change programme. Since July 2002 all BSI Group companies operate under a strengthened single brand mark. The simple aim was to have BSI recognised globally, focusing on its key attributes of integrity, innovation and independence, with all BSI Group businesses being seen as part of one global business, all delivering the BSI brand promise. The brand change programme has been a success and I am pleased to report that both customers and staff have welcomed the uniformity and opportunities that the new image has given to the Group.

Staff

The Group has continued to invest in its people and now has some 5,000 members of staff worldwide. In North America, staff numbers in the BSI Management Systems division doubled as a result of the acquisition of KPMG's North American ISO management systems

certification business and in Russia, Group staff levels through BSI Inspectorate reached a record 600.

During the year, BSI introduced a management development programme, through the Henley Management Centre, for senior management and up and coming staff that is truly international and covered the whole Group for the first time. There were delegates from the USA, Western Europe, Eastern Europe, the Middle East, Hong Kong and the UK. The programme has proved highly successful and is due to be repeated in 2003.

On a similar theme, we expanded the graduate management development programme to include the USA for the first time. A graduate assessment programme was held in Washington DC, in November 2002 and resulted in two of the graduates taken on by the Group coming from the USA. We will be looking at building on this in 2003. The retention levels over the six years of the programme have been excellent with in excess of 70% of the graduates remaining within the Group.

Standards and Relations with Government

I would like to make particular mention of our activities as the UK National Standards Body. The output of standards has again reached a

The Board

Turning to Board matters, apart from Vivian Thomas' departure which I have already mentioned, in February Stevan Breeze, who joined BSI from the Jarvis Group, was appointed Managing Director and joined the Board. Stevan is responsible for all the commercial businesses of the Group and chairs the BSI Executive.

Neil Garrard will be retiring from the Board at the AGM and I would like to take this opportunity to thank him for his committed service to BSI over the past ten years. We wish him and his family well for the future.

I am also pleased to report that Wayne Booker, formerly Vice-Chairman of Ford, where he worked for 43 years, has decided to join the BSI Board. We very much look forward to benefiting from his wide international experience in the industrial arena and particularly in the automotive sector.

We have altered the format of the Annual Review this year to reflect more properly the international operations of the Group. The operational report has been divided into three distinct geographical areas: Europe, the Middle East & Africa (EMEA), the Americas and Asia. The BSI Group is a global company and we believe the format

" ...investment has started to bear fruit and is reflected in strong results for the year..."

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record level with some 2,000 standards published during the year. This coupled with the increasing involvement in the arena of informal standards development is a reflection of our determination to provide a developmental and delivery service that is unrivalled by any comparative organisation worldwide.

This commitment to service market needs effectively and efficiently has been augmented by our continued support for the development of standardisation within countries such as Turkey, Egypt, Albania, Romania and Russia. Such international support and focus I believe is essential in promoting the benefits of standardisation across the globe on behalf of all our stakeholders.

In June 2002, BSI signed a Memorandum of Understanding (MoU) with the UK Government. The MoU provides the framework for BSI and the Government to work together and reaffirms the Government's commitment to BSI as the UK's National Standards Body. We welcome this valuable support from Government and the prestige that this carries. BSI's role as a national standards body, coupled with our relationship and contribution to international standardisation through ISO and CEN in which the British Standards team occupies key roles, is very much part of our heritage and we do not underestimate the importance of this privileged position.

A key feature of the year has been the development of a National Standardisation Strategic Framework (NSSF), in conjunction with the UK Government and the Confederation of British Industry. The aim of the NSSF is to promote and raise awareness of standardisation both nationally and internationally. We intend to be pivotal in driving this initiative forward.

of the Annual Review should reflect this. The British Standards report reflects BSI's role as the UK's National Standards Body and the international dimension of our work as one of the leaders in the development and promotion of standardisation.

The Group maintained its support of the BSI Environmental Design Awards in collaboration with the UK's Royal College of Art in 2002 – the eighth year of BSI's involvement. The winning design was by Sylvain Willenz and Yves Sinner. They gained international recognition for their invention, the re-light, which is a solar-powered rechargeable light designed for rural communities in developing countries. It has since been tested by a Médecins Sans Frontières doctor working in Angola.

Outlook

Towards the end of 2002, the Group committed to producing a strategic plan for the next three years. The plan, which will be formalised in 2003, proposes a consolidation and extension of the wide international influence exerted by BSI throughout the global standards arena. It will also provide for a phased expansion for the Group, both organically and through targeted acquisition where appropriate, still keeping within the framework of current BSI businesses. The growth of BSI's operations in Eastern Europe, Asia and the Americas is critical and we are putting in place the people and facilities to achieve our goals in these key market places.

Sir David John KCMG
19 March 2003



6 Review of the Year

This was my first year as Managing Director of the BSI Group and I am pleased to report that the Group performed extremely well across the divisions and across all global sectors. Turnover was up on 2001 to £232.8 million, with operating profit, including associates but excluding exceptionals (£1.1 million) and goodwill amortisation (£2.3 million), returning £21.3 million. This performance reflects a strong achievement taking into account the resolution of some key issues of our trading policy. Operating profit, as defined above, represented some 9.1% of turnover.

The Group has never been stronger and we have, I believe, a solid platform to continue this growth over the next decade. During the year, we implemented a strategic review of all the Group's operations. Individual strategic business plans have been developed and these will give the Group a decisiveness and purpose to accelerate the momentum we enjoyed during 2002.

A major result of the strategic review has been the merger of the BSI Product Services and Management Systems businesses. This will provide an infrastructure and foundation upon which we can grow Product Services globally. The merged businesses will utilise the existing three-hub structure in the Americas, Asia and Europe, Middle East & Africa (EMEA).

I am pleased to report that investment in premises, laboratories and people continued throughout the year. As a result, the Group achieved a number of significant operational firsts including new full service BSI Inspectorate oil and petroleum laboratories in Singapore, Dubai, Bahamas, Puerto Rico and Panama. During the year, the Group continued to expand substantially its operations within Asia, Russia and Ukraine, whilst in the United States and Canada the purchase of KPMG's North American ISO management systems certification business in February promoted BSI to become the number one management systems registrar in North America.



“ The Group has never been stronger and we have, I believe, a solid platform to continue this growth over the next decade.”

The Group has also invested in improving its service to customers. 2002 saw further investment in a new Siebel ‘Customer Relationship Management’ system which will enable both Marketing and Customer Services to upgrade their ability to respond to customers’ needs and preferences. The extension of PointGlobal, an intranet based framework that integrates with the operational SAP platform for BSI Management Systems, has provided a range of major benefits including on-screen diary management and delivery of ‘e’ assessment reports. These, coupled with the introduction of an electronic document management system, provide the flexibility and efficiency to improve significantly our services to our customers.

I have also taken the opportunity to strengthen the BSI Executive and warmly welcome Chris Fenton, Managing Director BSI Inspectorate responsible for the Europe, Middle East, Africa and Asia regions; Tony Connell, Group Director of Health, Safety and Environment and Frank Post, Group Marketing Director, to the Executive. Also joining BSI’s senior management team is Neil Hannah who has been appointed Managing Director of BSI Management Systems, EMEA region.

Overall worldwide staff levels broke the 5,000 barrier for the first time and I join the Chairman in thanking all colleagues across the Group for contributing to a successful year.

Stevan Breeze
Managing Director, BSI

The Executive Board. *From left to right:*

Chris Fenton, Managing Director, Inspectorate Europe, Middle East, Africa, Asia; Neil Hopkins, President, Inspectorate Americas; Giles Grant, Managing Director, Business Information; Stanley Williams, Director of Legal Affairs and Company Secretary; Stevan Breeze, Managing Director, BSI; Roy Mort, Group Finance Director; David Lazenby CBE, Director, British Standards; Nick Moy, Managing Director, Management Systems



Front Left to Right:
Sir David John KCMG, Chairman and Stevan Breeze, Managing Director, BSI with the 2003 Graduate Management Development intake: *from left, Slawek Szmigiel, Sam Fisher, Andy Haley, Jeff Palmer. Hazel Wilson, Development Manager for HR is centre.*



8 Europe, Middle East & Africa



Management Systems' sales activity within the UK continued to be buoyant with another record year of orders, some 25% ahead of last year. There has been a strong demand not only for management system products focusing on operational risk including environmental and health and safety certification, but also from new and existing clients embracing the ISO 9001:2000 standard. Major new clients in the UK include Goodyear, Corus, Jarvis and the UK Met Office.

Considerable effort has been focused on establishing the new competencies required for the ISO 9001:2000 management system standard both with our own assessor workforce and with our existing clients. In fact, the majority of our clients have participated within our unique modular approach to transition to capitalise on the added value such a process-driven framework delivers. The vast majority of customers are on track to achieve certification during 2003.

The range of management systems and associated training products has been extended with BSI achieving accreditation for Greenhouse Gas and Climate Change Verification for the UK Emissions Trading Scheme. Notable customers who have utilised our services within this arena are Dupont, Agfa, Imerys, Castle Cement and the British Beer and Pub Association.

The Group's network of Management Systems' offices in Poland, France, Spain and Turkey as well as the Middle East and South Africa increased their delivery capability by 50% compared to the previous year, supported by the doubling of new business orders across the region. New clients include Heinz, Duracell and the Government Ministries of Bahrain.

During 2002 BSI Inspectorate was given the opportunity to perform a landmark study on behalf of the Energy Saving Trust and the Liquid Petroleum Gas Association (LPGA) to ascertain the quality of Autogas available within England in accordance with BS EN 589:2000. This study forms part of the national "Powershift" programme whereby grants are offered for the public to move over from unleaded petrol to Autogas for environmental reasons.

This very important study has been developed at our Immingham laboratory in the UK. The aim is to develop accredited testing methods which will generate a full report to the Energy Saving Trust as to their quality findings, impacting every Autogas consumer in England. The study involves a random selection of some 1,200 Autogas stations, and at the rate of development of one additional gas station per day, this quality verification is set to grow through 2003.

Left: BSI now has over 600 staff in Russia with a head office in Moscow.

Middle Left: BSI achieved accreditation for Greenhouse Gas and Climate Change Verification under the UK Emissions Trading Scheme in 2002.

Middle Centre: Sappi, one of the world's leading paper and pulp processors, achieved Integrated Management Systems registration in South Africa with BSI.

Middle Right: BSI Inspectorate's new facility in Fujairah, part of BSI's investment in the Middle East.

Right: Autogas verification by BSI Inspectorate on behalf of the UK Energy Saving Trust.

Bottom Right: British Gas display the Company Wide Registration logo for ISO 9001 on their entire fleet of vehicles.



Another promising area of growth for the Group is in the Liquefied Natural Gas (LNG) business, a fast developing source of energy worldwide. During the year, BSI Inspectorate undertook LNG inspections in Algeria and Spain, a first for the BSI Group, following the granting of 'approval' status from the Algerian National Oil Company, SONATRACH. Further expansion of the scheme is already taking place in Nigeria, the USA, the Middle East and Asia.

Significant success was also achieved within our Eastern European operations, with a growth in inspection and testing revenue in excess of 25%, representing a major extension of our capability into that growing market.

The year witnessed significant growth in delivery of BSI Business Information's commercial expertise to national standards bodies and other international organisations. In particular, a significant contract in Turkey was secured, where a BSI team will spend five years based in Ankara advising Turkish Government and industry on standards related issues required to prepare for EU accession. Other major contracts have been won in Albania, Romania and Ethiopia.





BSI Business Information continued to play a prominent role in international commercial policy, drafting a business model for CEN Workshop Agreements, taking the lead in several ISO commercial reviews and gaining agreement for a comprehensive review of intellectual property rights protection for standards.

The Group enjoyed buoyant publication sales in 2002. Prominent were key standards required in building design and construction, fire safety, electrical wiring and technical design. In addition, quality management products continue to be in demand. Total 2002 sales for the ISO 9000 portfolio exceeded £1 million. Value added products including electronic versions, software implementation tools, guidance books and a pocket book format were also published to meet the increasing customer demand for assistance with conversion to the ISO 9001:2000 management system.

Provision of standard understanding and business process improvement information also continued to be the mainstay of BSI Business Information's successful training and seminar offering. This was complemented by the extensive training activity provided by Management Systems to encourage clients and consultants to enhance their auditing capabilities.

2002 saw BSI Business Information devote further investment in using the website to communicate with customers. A new resource

centre website was created specifically for SMEs, including access to over 150 free 'Directors' Briefings' business guides, which attracts around 8,000 visitors per month.

The Professional Standards Service, offering flexibility and speed in developing standards solutions, has continued to expand. 2002 saw BSI engage in a strategic partnership with the Waste and Resources Action Programme (WRAP) to develop new standards to grow the market in recycled products and help the UK move towards meeting the obligations of the Landfill Directive.

The BSI Kitemark continued to be recognised as a trusted quality mark and in 2003 it celebrates its centenary. In addition to continued growth in the UK within the construction sector, the Kitemark was increasingly utilised by new international licensees as a product differentiator in their own domestic markets.

International certification business was further extended by the addition of electro-medical products to the extensive BSI scope for the International Electrotechnical Commission Certified Body scheme. The UK Department of Trade and Industry appointed BSI Product Services as a body to conduct assessment and approval of telecommunications operators' metering and billing systems against OfTel's metering and billing approval scheme.

Left: BSI is actively involved in the Construction Products Directive with over 100 certificates issued to date.

Middle Left: BSI is engaged with the UK Waste and Resources Action Programme to grow the market in recycled products.

Middle Centre: BSI has Notified Body status for 16 European Directives for CE marking.

Right: BSI has extended its accreditation within the Medical Devices Directive.

Bottom Right: Personal Protective Equipment testing for CE marking.



Notified Body services designed to help clients meet the requirements of European Directives, through CE marking, were further enhanced. The comprehensive BSI Product Services Notified Body status for 16 Directives was augmented by a number of extensions to the scope of accreditation for testing, inspection and certification activities. Additions included appointment as a Technical Authority to assess electrical components and systems for motor vehicles to the Automotive Electromagnetic Compatibility Directive, accreditation as a recognised third party to approve personnel for Non-Destructive Testing for pressure equipment, and accreditation by the Medical Devices Agency to assess human blood derivatives associated with the Medical Devices Directive.

The roll-out of new standards in Europe, in support of the Construction Products Directive (CPD), was mirrored by increases in the scope of BSI Product Services activity. Over 100 certificates to the enhanced scope were issued, including the first CE certificate in the UK for thermal insulation.





2002 was an important year for the BSI Group in North America. The purchase of the US and Canadian ISO registration business of KPMG doubled the size of BSI's North American business, giving it the No 1 registrar position in the North American management systems assessment market and importantly in the key automotive sector. This growth has also positioned BSI to deliver an enhanced range of services with a broader local and global coverage.

The expansion in North America included BSI Management Systems' first Canadian concerns with the establishment of offices in Toronto and Windsor, Ontario.

BSI-CEEM, the training group acquired by BSI in August 1998, was fully integrated into BSI Management Systems. The Company is now in the position to offer both commercial and internal training for BSI Americas thus providing one brand with one operating system and one sales team to deliver a full service capability.

The Company made significant agreements with GKN, the Robert Bosch Corporation, TRW, Hewlett Packard, and Alcoa. These wins strengthened BSI's position as the leading registrar in North America. A further major deal was the completion of TL 9000 registration at 22 Verizon locations. The achievements in the motor trade led directly to the opening of a sales office in Detroit.

The Group continued its rapid business expansion in Mexico with the establishment of a BSI Management Systems office in Mexico City. Significant wins include Telcel, the largest cellular telephone company in Mexico and part of the Grupo Carso conglomerate.

Since its opening at the end of 1999, BSI Management Systems Brazil has built up a solid client base and is now assessing in excess of 400 locations. This growth has been supported by the opening of a new sales office in Sao Paulo, which will give the Company access to business in a city of more than 18 million people.

In the product certification arena, BSI made significant inroads into the field of medical devices, capitalising on its European Notified Body status and its close relationship with the Canadian regulators. In November 2002 BSI Management Systems achieved accreditation by the Standards Council of Canada to conduct Health Canada Canadian Medical Device Conformity Assessments System (CMD-CAS) audits. CMDCAS registration is required for all medical device manufacturers selling to Canada and requires them to be registered to ISO 13485 or ISO 13488 by a CMDCAS accredited registrar.

BSI actively contributed to the debate with the US Food & Drug Administration (FDA) on third party inspections of medical device manufacturers. The talks were successful and in October 2002

President Bush signed a new Act into law that established FDA accredited third party inspection agencies. As a result, early in 2003 BSI, as an accredited third party inspector, accepted its first applications for independent pre-market approval.

BSI established a full-time US medical devices group working closely with the EU medical devices notified body group based at BSI Product Services in Hemel Hempstead, England. The US group provides advice and support to US clients requiring European approvals to sell in the EU. Following BSI's appointment as a third party inspector the Company provides support to BSI's EU and Asian clients that require US 510(k) and CMDCAS approval for North America. The group will also assist domestic US companies to achieve accreditation under the new US FDA third party inspection programme.

In 2002 BSI participated for the first time in the US/EU Mutual Recognition Agreement, conducting US FDA inspections of European based medical devices manufacturers who require FDA approval to sell in the USA.



2002 saw BSI Inspectorate's Oil and Petrochemicals (O&P) market adversely affected by lower volumes of oil in North America in general. Gasoline blending activity dropped during the latter part of the year, which further impacted O&P business levels. A strike during the last quarter offset an otherwise good year in Venezuela, and also had an impact on business in the US Gulf Coast ports and Caribbean locations.

New O&P laboratories were, however, constructed in the Bahamas, Puerto Rico, Mexico and Brazil to service the growing need for quality certification in Central and South America. Late in the year we were awarded a laboratory outsourcing contract to operate the Chevron-Texaco laboratory in Panama, Central America, further strengthening BSI Inspectorate's laboratory network in the region. The labs opened for business on 1 February 2003. The BSI Inspectorate O&P business in Mexico and Argentina remained strong and vibrant.

Good grain harvests in Argentina and Brazil helped the BSI Inspectorate Agriculture division exceed expectations. The Company opened a new laboratory in Guayaquil, Ecuador to provide agriculture inspection, testing and certification services to the local fruit, fish, pesticide and environmental markets.

BSI Inspectorate Metals and Minerals business experienced good geochemical performances helped by the newly expanded network of locally based sample preparation facilities in Latin America which feed into BSI Inspectorate's main geochemical laboratory in Reno, Nevada.

Top Left: The number one automotive Management Systems registrar in North America is now BSI.

Middle Left: Toronto is the site of one of Management Systems' new offices subsequent to the acquisition of KPMG's ISO business in North America.

Middle Centre and Right: BSI Inspectorate's new Panama Canal facilities for oil and petrochemicals testing.

Top Right: Agri commodity inspection in Ecuador by BSI Inspectorate employee, Ruben Chaing.



The Group has identified Asia as a market of major significance and key to delivering future growth, truly building upon our market-leading positions within Europe and the Americas. As a sign of our confidence and commitment to the region, levels of investment have risen substantially with capability and coverage of services expanding significantly in terms of depth and geographical spread.

Since the inception of our management systems business within Asia, growth has been exponential with local operations now fully established in the key Asia markets of Japan, Korea, China, Hong Kong, Taiwan, Singapore, Thailand and India. Our Asia client portfolio includes some of the largest and most prestigious Asian companies, names such as NTT, Tokyo Metropolitan, COSCO, Sony, Samsung, PCCW, LG, Fujitsu, Hitachi, India Oil and Hyundai. In addition, we certify leading US and European companies such as General Motors, Nokia, Ericsson, 3M, BASF, Compaq, Canon, Celestica and Shell.

With the increasing importance of Asia in the manufacturing arena, opportunities abound for BSI to help and support industry to manage the related quality, environment and social issues within what, for many, is becoming an increasingly stretched and complex supply chain.

During 2002, BSI Management Systems performed well ahead of expectations – it achieved turnover growth of 34% in the region

and staff numbers increased by some 22%. Performance was good across all business sectors, but largely driven by significant volume increases within Japan, China, Korea and India. Growth from new products, led by training, has been significant, particularly in the area of Information Security (BS 7799) whilst the majority of business growth is still coming from ISO 9001 and ISO 14001. The achievement of our Japanese business to be accredited to the local version of the BS 7799 certification scheme (JIPDEC) is worthy of note.

Addressing the diversities across the region (cultural, political and economic) and presenting a seamless and homogenous face to the market and customers – a single look and feel – is something we are proud to be achieving. All BSI country operations are exclusively managed and staffed by local nationals who, apart from a wealth of local knowledge and expertise, bring a new look, flavour and cultural feel to BSI.

Looking to the future, China's accession to the World Trade Organisation has enormous implications for business, not just in Asia but across the globe. Understanding the full scope of its impact at this relatively early stage is a challenge, but BSI is well placed to be at the forefront in developing the Chinese trading relationship with the global business community. China is now the fourth largest industrial producer, after the US, Japan and Germany. However, with GDP growth in China of some 8%, export growth of

18% and import growth of 17%, expectations are that this position will change.

BSI has seen this shift towards Asia in the context of changing client needs and expectations. Through our ongoing commitment to and development within Asia, we are confident of being well placed to service international as well as local business needs across the full range of BSI services.

During the year, BSI Product Services grew its offering in the Asian marketplace. A wide range of product assessments, inspections and certification were delivered in manufacturing and assembly plants including China, Hong Kong, Japan, Taiwan, Thailand, Singapore, Malaysia and India. In order to provide an enhanced gateway to BSI services, testing and certification partnerships were established in China and the USA for electrical and electronic products.

The specialist skills, knowledge and integrity of BSI Product Services staff were recognised by clients, regulatory authorities and government agencies both in the UK and in Asia. Typically, the application of specialist knowledge in partnership with world-renowned clinicians



led to the approval of new high-performing medical devices, and relationships were built with the Chinese State Drug Administration by means of a tailored training programme.

As with other divisions of the Group, China remains a key focus for BSI Inspectorate with the division's Chinese operations in both consumer and agricultural products inspections being developed. O&P is being targeted for future growth expansion and in particular in the rapidly expanding O&P industry around Shanghai.

BSI Inspectorate China had its best ever year with both revenue and operating profit growth rising more than 20% over the previous year. The Metals and Minerals business enjoyed major growth with good steady gains in both ferrous and non-ferrous metals work, and in particular in the coal and coke operations, which are now serviced by a new laboratory in Tianjin, Northern China.

In 2002, BSI Inspectorate developed a state-of-the art oil and petrochemical laboratory in Singapore. The new laboratory is BSI Inspectorate's largest facility in the Pacific Rim region and is a centre of excellence for both testing and technical support. A network of satellite labs that provide specific analytical testing throughout Asia supports the new laboratory. The investment reinforces the strategic importance of Singapore as a location, together with London, Houston, New York, Rotterdam and Fujairah, to the O&P industry.

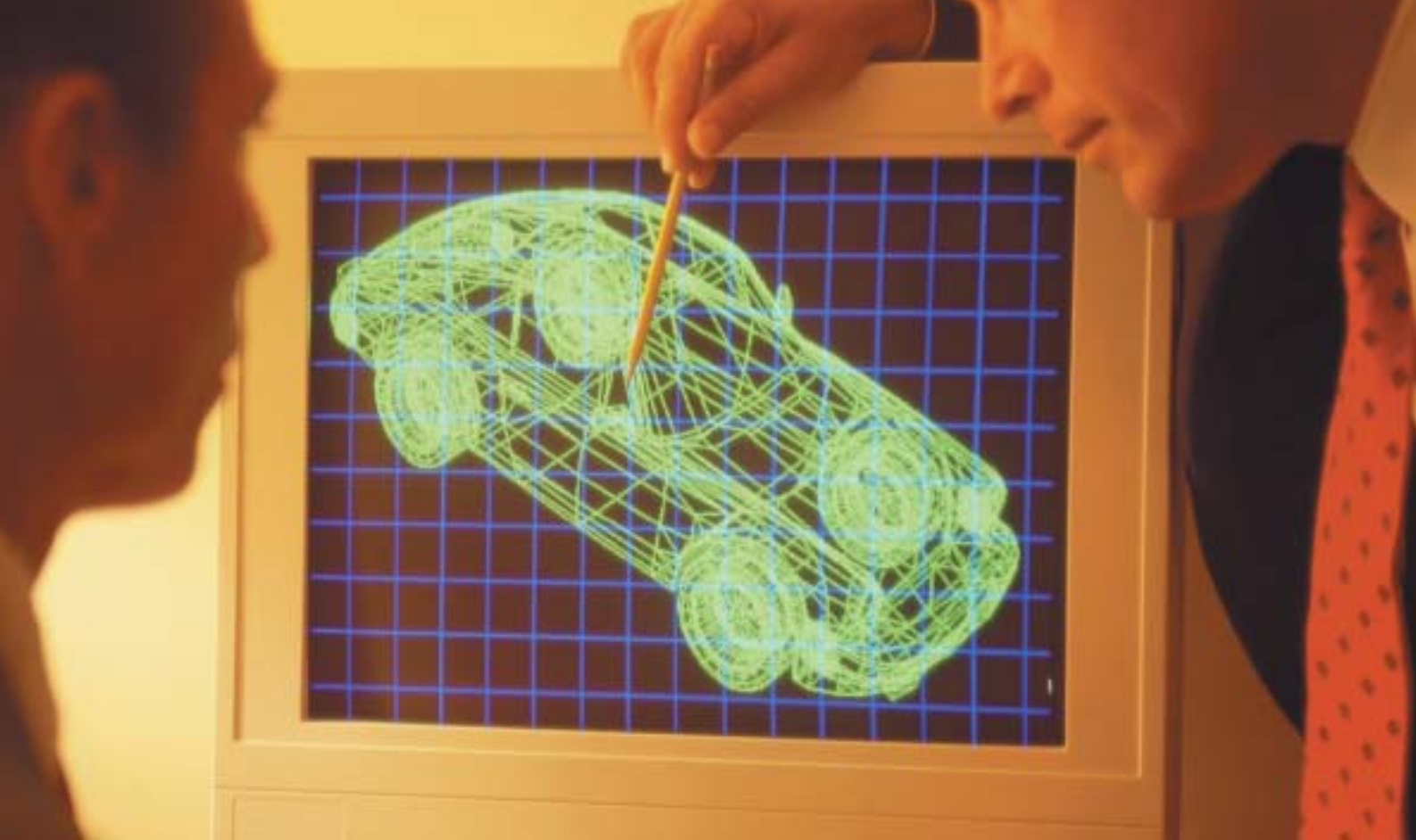


Top Left: Ahmad Rashidi b. Ramlie, Manager, Autosampling Services and *Middle Centre:* Leong Ping Er, Technician, in the new BSI Inspectorate oil and petrochemical laboratory in Singapore.

Middle Left: BSI Management Systems' team meets in the new Asia Hub office in Hong Kong.

Middle Right: J K Cheon of BSI Management Systems, Korea and *Immediate Left:* Certificate of Commendation for the Advancement of Quality Management awarded to J K Cheon by Suk-Soo Kim, the Prime Minister of Korea.

Top Right: Jongno Tower, Seoul, location of BSI Korea's new office.



16 British Standards Report



For the last couple of years, I have reported on the high level of activity in British Standards as we deal with the challenges and opportunities of the 21st century. 2002 has been no exception both nationally and internationally. There is no doubt that we are moving decisively to answer the needs of our stakeholders, and in our case to pay even more attention to the international scene, so as to build on our position of influence across the global village.

The output of standards reached some 2,000, again a record. The trend towards more standardisation in the field of services and societal issues continues, and I see this as increasingly important for the future. This year some of our major publications included:

- BS 8888** Technical drawing encompassing 3D modelling section
- BS 5839-1** Fire alarm systems; an important standard for the construction industry.
- BS EN ISO 19011** Quality and Management Auditing
- BS EN 13402-3** Clothes sizing
- PD 3000** Information Security
- BS 7988** Use of IT to deliver assessments, seen as the future of education examinations
- BS 15000-1** IT service management

There was increased activity in the informal standards work, where we successfully completed projects for Railtrack, Survive and Respond PSS (dealing with Customer Loyalty) whilst our work with the Waste and Resources Action Programme on compost received a great deal of publicity, as part of universal concerns with environmental issues.

Top, Middle Left and Centre: 3D modelling, clothes sizing and fire alarm systems: all major publications from British Standards in 2002.

Strategic Review

The year has seen a major review of our strategic direction and our internal processes. The results have included a major restructuring of our standards development operations, which has already largely been implemented, and more clarity in our international activities.

The objectives of the British Standards review were clear: to improve the way in which we identify our stakeholders' needs and to provide the most effective response in terms of the speed, appropriateness and efficiency of our processes.

The major elements of the review and our implementation of the resultant initiatives were:

- planning a comprehensive programme of education and profile building, to embed the culture of standardisation and its benefits;
- improving the means of communicating with our stakeholders;
- prioritisation of target sectors for new standardisation, particularly in fast-developing technological industries and service provisions;
- re-structured standards development processes to reflect the



needs of informal, national and international programmes in distinct streams;

- further focusing of our international activities to achieve optimal benefits for the stakeholders, and leverage of our high profile and influence.

It will take us into 2004 for all these elements to be fully implemented, and for the benefits to flow through. It promises to be an exciting time.

The National Scene

As the UK National Standards Body, our relationship with HM Government is obviously crucial, and it has been very constructive in recent years. Bearing in mind the changes in business and society, and the development of the BSI Group, we have had constructive discussions with the DTI on some necessary changes to our Memorandum of Understanding (MoU). I am pleased that a new MoU, which incorporated a definition of "public interest", was signed by the Chairman of the BSI Group and Lord Sainsbury of Turville, the UK Minister for Innovation and Technology in June 2002.

Standardisation is a key factor in support of government policies, including competitiveness, innovation, reduction of trade barriers, fair trading and protection of consumer interests, environmental protection and public procurement. This new MoU clarifies the practicalities of our future activities and the freedom of operations

needed in the challenging modern standards world.

As mentioned by the Chairman in his remarks, we have started an important initiative to develop the National Standardisation Strategic Framework. This will carry forward into 2003 in partnership with the UK Government and the Confederation of British Industry.

International activities

The international arena is vitally important, and we devoted ever more efforts to sustaining our leading role. BSI maintains its pivotal role in both the European (CEN and CENELEC) and International (ISO and IEC) standards community. It underlines the profile and influence that we bring to our role as the 'portal' for UK stakeholders.

During 2002, British Standards division increased activity in the field of technical assistance to other governments and National Standards Bodies (NSBs) both in the expanding European Community and in other key countries. In Turkey, British Standards operated the European Commission "Expertise Centre", via CEN. In Egypt, British Standards is working to establish an effective quality infrastructure for the



Signing of the MoU. *Back row, from left:* Ross Howie, DTI; David Reed, DTI; David Lazenby CBE; Stanley Williams. *Front row from left:* Lord Sainsbury and Vivian Thomas CBE.

Egyptian Government, NSB and industry. In Russia, we supplied the management of input to the NSB on regulations and other EU matters, whilst in Albania and Romania British Standards supplied support and training for the respective NSBs. British Standards is in active discussions with many others and it is a vital role for the UK's interests. We are intent on playing an increasingly leading role on the global stage.

In conclusion

British Standards staff have sustained their activities at a record level, whilst working on far-reaching developments, and the key players deserve special thanks. All in all this has indeed been a year of outstanding progress towards a sustainable and successful future, as the core part of the BSI Group.

David Lazenby CBE
Director, British Standards



18 BSI Brand around the World



Moscow

A corporate brand represents the sum of an organisation's vision, products, personality and reputation. In clear recognition of this fact, BSI decided in July of 2002 to leverage the power that global recognition and consistency can bring with the launch of a new visual identity.

To reflect the ambition and vitality of a complementary set of world-class businesses with the same intrinsic goals and values, a new strengthened and updated brand mark was adopted to create a consistent, attractive and clear visual identity across the Group's global operations.

The roll-out activity involved BSI sites worldwide and covered product literature, advertising, stationery, vans, uniforms, websites and no less than 450 external signs for BSI Group premises. It also included an extensive communications programme to staff, customers, suppliers and others detailing the rationale and benefits of a single unified brand.

Since the July launch, adoption of the new style has been swift and universal, reflecting the positive enthusiasm of both customers and staff for the new brand look.



Reception area of the new Asia Hub building in Hong Kong.



Glasgow



Hong Kong

Left: Stevan Breeze, Managing Director, BSI, with the new BSI corporate brand outside the Group headquarters in Chiswick, UK.

Photo courtesy of Newscast.

Right: Pintusorn Chaithawatwanakorn and Ruedee Pholthaweechai outside the headquarters of BSI Thailand.



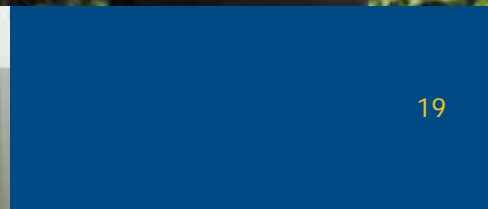
Beijing



Detroit



Houston



Rio de Janeiro



Shanghai



Cardiff



Washington, DC



Calcutta



Tokyo



Murmansk



Madrid

Summary Financial Review

Introduction

It is our policy to follow best practice accounting in the preparation of our Annual Review and Summary Financial Statements in accordance with company regulation and the Listing Rules of the UK Financial Services Authority.

The year to 31 December 2002 has seen a slight increase in operating activity, resulting in an operating profit before exceptional items and goodwill amortisation but including associates of £21.3 million compared to £21.1 million for the year to 31 December 2001. The Group's operating profit after exceptional items of £1.1 million (2001: nil) and goodwill amortisation of £2.3 million (2001: £1.0 million) was £17.9 million (2001: £20.1 million).

Prior year figures have been restated to achieve consistency in reporting sales and costs across the Group and to ensure a fairer comparison with the 2002 results.

Goodwill amortisation has increased to £2.3 million from £1.0 million in 2001. Following a standardisation of policies throughout the Group, the amortisation period for the Inspectorate goodwill has been reduced from 40 years to 20 years. The remaining written down value is being amortised over its reassessed useful life.

Cash flow and investment in the business

Cash of £20.7 million was generated in 2002 from operating activities before interest, tax and capital expenditure. Net capital expenditure for the year of £7.9 million reflects continuing investment in computer software, equipment and infrastructure.

Net cash of £14.2 million at the year end (2001: £20.5 million) includes deposits, loans and overdrafts. This net cash position has declined principally due to the acquisition of the KPMG North American ISO management systems certification business during the year.

The Group seeks to achieve a balance between certainty of funding with committed facilities and a flexible cost-effective structure. At 31 December 2002, the group had unutilised committed bank facilities of £13.1 million, unutilised short term borrowing facilities of £11.6 million and net cash of a further £14.0 million.

The Group policy is for Treasury continually to review the market for interest rate protection instruments. Examples of this are the matching of sterling set-off deposits against sterling and currency loans, and investing the surplus cash at floating interest rates. Management of interest rate risk is achieved by using rolling monthly contracts for both the loans and sterling deposits. The risk is also managed by constant monitoring of the interest rates in Sterling, Euros and US dollars and periodic reviews of the market for interest rate protection instruments.

BSI operates internationally, giving rise to exposure from changes in foreign exchange rates, particularly the US Dollar. The Group does not hedge profit and loss account translation exposure because any benefit obtained from such hedging can only be temporary. If the exchange rates prevailing at the year end had applied throughout 2002, the effect on translation of operating profit and retained profit would have been less than 2% (2001: 1%).

Taxation

The effective tax rate for the year increased slightly from previous years at 33.4% in 2001 to 33.8% in 2002, excluding the effect of goodwill amortisation. This is a result of prior year adjustments and movements on deferred tax. However, the underlying tax rate, excluding any adjustments for prior years, is 31.8% in 2002 compared to 32.6% in 2001. This is higher than the UK statutory rate of 30% because a significant proportion of the Group's profit arises in the USA and because of unrelieved losses in certain overseas locations. Going forward, the tax rate is expected to reduce towards the UK statutory rate.

Government support

Government funding of standards work has increased from £5.6 million last year to £6.2 million for the year to 31 December 2002. Within current year funding, £3.4 million represents direct funding for standards activities and £2.8 million for other related activities including committee members' international travel.

The activities of standards writing are managed exclusively within a ring-fenced arrangement, whereby Government funds together with receipts from sales and funding from other BSI sources are deployed to meet the needs of the standards development programme.

Going concern

The Directors confirm that, after making appropriate enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they have adopted the going concern basis in preparing these financial statements.

Roy Mort

Group Finance Director
19 March 2003

Summary Financial Statements

Summary Group profit and loss account

for the year ended 31 December 2002

	2002	2001 (restated)
	Total £m	Total £m
Turnover	232.8	229.2
Cost of sales	(145.3)	(140.1)
Gross profit	87.5	89.1
Operating expenses (excluding amortisation) less other income	(67.9)	(68.8)
Goodwill amortisation	(2.3)	(1.0)
Group operating profit	17.3	19.3
Share of profit in associated undertakings	0.6	0.8
Profit on ordinary activities before interest	17.9	20.1
Interest receivable	1.2	2.1
Interest payable and similar charges	(1.1)	(1.8)
Profit on ordinary activities before taxation	18.0	20.4
Tax on profit on ordinary activities	(6.8)	(7.1)
Profit on ordinary activities after taxation	11.2	13.3
Equity minority interests	(1.8)	(2.3)
Retained profit for the period	9.4	11.0

Other losses arising in the year and charged against reserves were exchange losses of £1.1m (2001: £1.5m) and an adjustment for prior periods in relation to previously unprovided deferred tax on the adoption of FRS 19 in the year, of £1.0m (2001: nil).

Summary Group balance sheet

at 31 December 2002

	2002	2001
	Group £m	Group £m
Goodwill	38.5	30.7
Tangible assets and investments	24.8	23.2
Fixed assets	63.3	53.9
Current assets	99.3	103.7
Current liabilities	(53.4)	(51.1)
Net current assets	45.9	52.6
Total assets less current liabilities	109.2	106.5
Creditors falling due after one year	(16.0)	(19.6)
Provisions for liabilities and charges	(7.5)	(10.8)
Equity Minority interests	(3.8)	(3.5)
Net assets	81.9	72.6
General Fund – reserves	81.9	72.6

The summary financial statements on pages 21 to 22 were approved by the Board on 19 March 2003 and have been signed on its behalf by:

Sir David John KCMG
Chairman

Summary Financial Statements

Summary Group cash flow statement

for the year ended 31 December 2002

	2002	2001
	Total £m	Total £m
Net cash flow from operating activities	20.7	22.2
Dividends received from associated undertakings	0.6	0.4
Returns on investments and servicing of finance	(1.5)	(0.6)
Taxation	(7.3)	(5.6)
Net capital expenditure	(7.9)	(6.8)
Acquisitions and disposals	(9.8)	-
Cash (outflow)/inflow before management of liquid resources and financing	(5.2)	9.6
Management of liquid resources	5.3	9.0
Financing		
Decrease in borrowings	(2.5)	(9.9)
Repayment of principle under finance leases	(0.1)	(0.1)
(Decrease)/Increase in cash	(2.5)	8.6

Movement in net funds/(debt)

for the year ended 31 December 2002

	2002	2001
	Total £m	Total £m
(Decrease)/Increase in cash	(2.5)	8.6
Movement in short term investments	(5.3)	(9.0)
Movement in borrowings	2.6	10.0
Exchange adjustments	(1.2)	0.4
Movement in net funds in the period	(6.4)	10.0
Net funds at beginning of period	20.4	10.4
Net funds at end of period	14.0	20.4

Summary remuneration report

During 2002, the aggregate amount of Directors' emoluments, including benefits and bonus payments, was £0.9m (2001: £0.6m). Full details of Directors' remuneration are contained in the full Report and Accounts for 2002 (page 30). The increase in 2002 reflected the emoluments of the new Managing Director, whereas in 2001, the role was fulfilled by a contracted interim manager who was not a Director. Retirement benefits were accrued under the Company's defined benefit scheme in respect of three Directors (2001: 3).

The Group's objective is to ensure that the levels of emoluments for Executive Directors are set to attract, retain and motivate individuals of the quality required to optimise the interests of the Group and its members.

Due consideration is given to the rewards payable in comparable organisations and their relative performance.

Summary Reports

Auditors' statement to the members of BSI

We have examined the Summary Financial Statements set out on pages 21 and 22.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Review and Summary Financial Statements in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements within the Annual Review and Summary Financial Statements with the full annual financial statements, Directors' Report and Directors' Remuneration Report and their compliance with the relevant requirements of Section 251 of the United Kingdom Companies Act 1985 and the regulations thereunder, as if the same applied to BSI. We also read the other information contained in the Annual Review and Summary Financial Statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statements.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, "The Auditors' Statement on the Summary Financial Statement, Directors' Report and Directors' Remuneration Report of BSI" issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the Summary Financial Statements are consistent with the annual financial statements, Directors' Report and Directors' Remuneration Report of BSI for the year ended 31 December 2002 and comply with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder as if the same were applicable to BSI.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
19 March 2003

Summary Directors' report

The Annual Review and Summary Financial Statements are a summary of the information contained in the Annual Report and Accounts for the year ended 31 December 2002.

Principal activities and business review

A review of the business and likely future developments of the business are described in the Chairman's statement on pages 4 to 5 and the review of the year on pages 6 to 17. A description of the principal activities of the Group is set out on page 3.

Corporate governance

The Company is committed to the highest standards of corporate governance and manages the affairs of the Company in accordance with the Combined Code which incorporates the Cadbury, Greenbury, Hampel and Turnbull reports. Consideration is currently being given to both the Higgs Report and Smith Report.

The Board has appointed a number of committees to deal with specific aspects of the management of the Company, namely the Audit, Remuneration, Nominations and Development Committees. Directors' membership of these committees is shown on page 27.

A Group Compliance and Risk Management function under the direction of the Director of Legal Affairs and a Business Risk function under the direction of the Finance Director carry out complementary work in the fields of identifying and managing risk, compliance monitoring and training and maintaining internal and external quality standards.

Details of how the Company applies the principles set out in the Combined Code are set out in the full Report and Accounts for the year ended 31 December 2002.

Annual General Meeting

Details of the AGM to be held on 21 May 2003 at 3.30pm at British Standards House, London, together with the resolutions to be proposed at the meeting are set out on page 24.

The Board

Members of the Board at 11 April 2003 are listed on page 27. On 4 February 2002, Stevan Breeze joined the Board as Managing Director. On 1 May 2002, Sir David John KCMG joined the Board as a non-executive director. At the AGM in July 2002, Vivian Thomas CBE did not seek re-election and retired from the Board. Sir David John was elected as Chairman of the Board in succession to Vivian Thomas. The Board has appointed Wayne Booker, former Vice-Chairman of the Ford Motor Company, to the Board as a non-executive director with effect from 1 May 2003.

BSI's Bye-laws require that one-third of all Directors, excluding those retiring pursuant to Bye-laws 8 (b) and 8 (c), shall retire by rotation each year at the Company's AGM (together with the Directors appointed by the Board since the Company's last AGM). Retiring Directors who will retire from the Board at this year's AGM are Neil Garrard, Roy Mort and David Lazenby. Neil Garrard will not be offering himself for re-election. Neil joined the Board in 1992, and the Board would like to thank him for his committed service to BSI over the past ten years. Roy Mort and David Lazenby are pleased to offer themselves for re-election. Wayne Booker also retires from the Board under Bye-law 8 (c), and will be offering himself for re-election at the AGM.

Stanley K Williams

Director of Legal Affairs and Company Secretary
11 April 2003

Full Report and Accounts

In the interests of readability and economy, we follow the common practice of publishing an Annual Review of our operating activities together with Summary Financial Statements. It should be noted that the latter do not contain sufficient information to allow as full an understanding of the Company's and Group's results and state of affairs as would be provided by a full report and accounts. If you would like a copy of the detailed Report and Accounts for 2002, on which the auditors have issued an unqualified report, please contact Mrs Pamela Danvers: Tel: +44(0) 20 8996 7339 Email: Pamela.Danvers@bsi-global.com



Sir David John KCMG



Anthony Fry



Neil Garrard



David Kendall



Nigel Macdonald



Tony Percival



W Wayne Booker



Stevan Breeze



David Lazenby CBE



Roy Mort



Stanley Williams

Board of Directors

Chairman

Sir David John KCMG ▲●■◆
Sir David John was elected Chairman in July 2002 after joining the BSI Board in May 2002 as a non-executive director. He is currently chairman of Premier Oil plc, and will become Chairman of Balfour Beatty plc in May 2003. He is also a non-executive director of The St Paul's Company Inc., USA. Sir David is the immediate past chairman of the BOC group. Age 64.

Non-executive Members

Anthony Fry ●■
Anthony Fry is a Managing Director of Credit Suisse First Boston, an international global investment bank. Prior to joining Credit Suisse First Boston he held a number of senior positions in the financial sector for the Rothschilds Group. He joined the BSI Board on 1 January 2000. Age 47

Neil Garrard ▲●◆
Neil Garrard joined the Board in March 1992. An independent business consultant and a director of three companies in the development and building components sectors, he was a director of McKinsey & Company until leaving in 1990 to pursue his own business interests. Age 65.

David Kendall ●
Following a career in the oil and petrochemical industry David Kendall joined the BSI Board on 1 January 2000. In addition to membership of the BSI Board he holds a number of non-executive directorships including chairmanships of Wagon PLC and Celtic Energy Ltd. Age 68.

Nigel Macdonald ▲
Nigel Macdonald has been a member of the BSI Board, and Chairman of the BSI Audit Committee, since 1992. A senior partner with Ernst and Young until he retires in 2003, he is a past President of the Institute of Chartered Accountants of Scotland, a member of the Competition Commission and a member of the Audit Board of the International Oil Pollution Compensation Fund. Age 58.

Tony Percival ◆■▲
Tony Percival joined the BSI Board in January 1997. He was a director of Kingfisher plc until October 2002 and was its finance director from 1995 to 1998, following 28 years accounting and management experience as a partner with Coopers & Lybrand. Age 63.

W Wayne Booker
W Wayne Booker will join the BSI Board on 1 May 2003. From November 1996 to January 2002, he was Vice-Chairman of Ford Motor Company's worldwide operations with responsibility for the Company's presence in international markets and for the Company's associations with many global business partners. Mr Booker enjoyed a 43 year career with Ford, during which time he served on the boards of several international councils. Presently, he serves as the Lead Director of the AGCO Corporation, an international manufacturer of agricultural equipment located in Duluth, Georgia. He is also a member of the Board of Directors of Koc Holding A.S. located in Istanbul, Turkey. Age 68.

Executive Members

Stevan Breeze ●◆
Managing Director
Stevan Breeze joined BSI as Managing Director in February 2002. He was previously a director of Jarvis Infrastructure Services and Divisional Managing Director at BTR. Age 51.

David Lazenby CBE
Director, British Standards
David Lazenby has been Director of British Standards since December 1997. A professional engineer, he is a past President of the Institution of Structural Engineers, and over many years has gained wide experience of national, European and international standards activities. Age 65.

Roy Mort ◆
Group Finance Director
Roy Mort joined the BSI Board in November 2000 having previously been Finance Director of the Group's subsidiary, Inspectorate PLC. He has previously held senior positions in a number of international companies, and has wide operational experience within the services industry. Age 51.

Director of Legal Affairs and Company Secretary

Stanley Williams
Stanley Williams joined BSI as Company Secretary and Director of Legal Affairs in September 1997. He was previously Company Secretary and Solicitor of BTR plc, and Deputy Company Secretary of Rowntree plc. He is Chairman of the BSI Pension Trust. Age 58.

- ▲ Audit Committee
- Appointments and Remuneration Committee
- Nominations Committee
- ◆ Development Committee

shape the future



BSI Group headquarters

389 Chiswick High Road
London W4 4AL

Tel: +44(0)20 8996 9000

Fax: +44(0)20 8996 7400

www.bsi-global.com