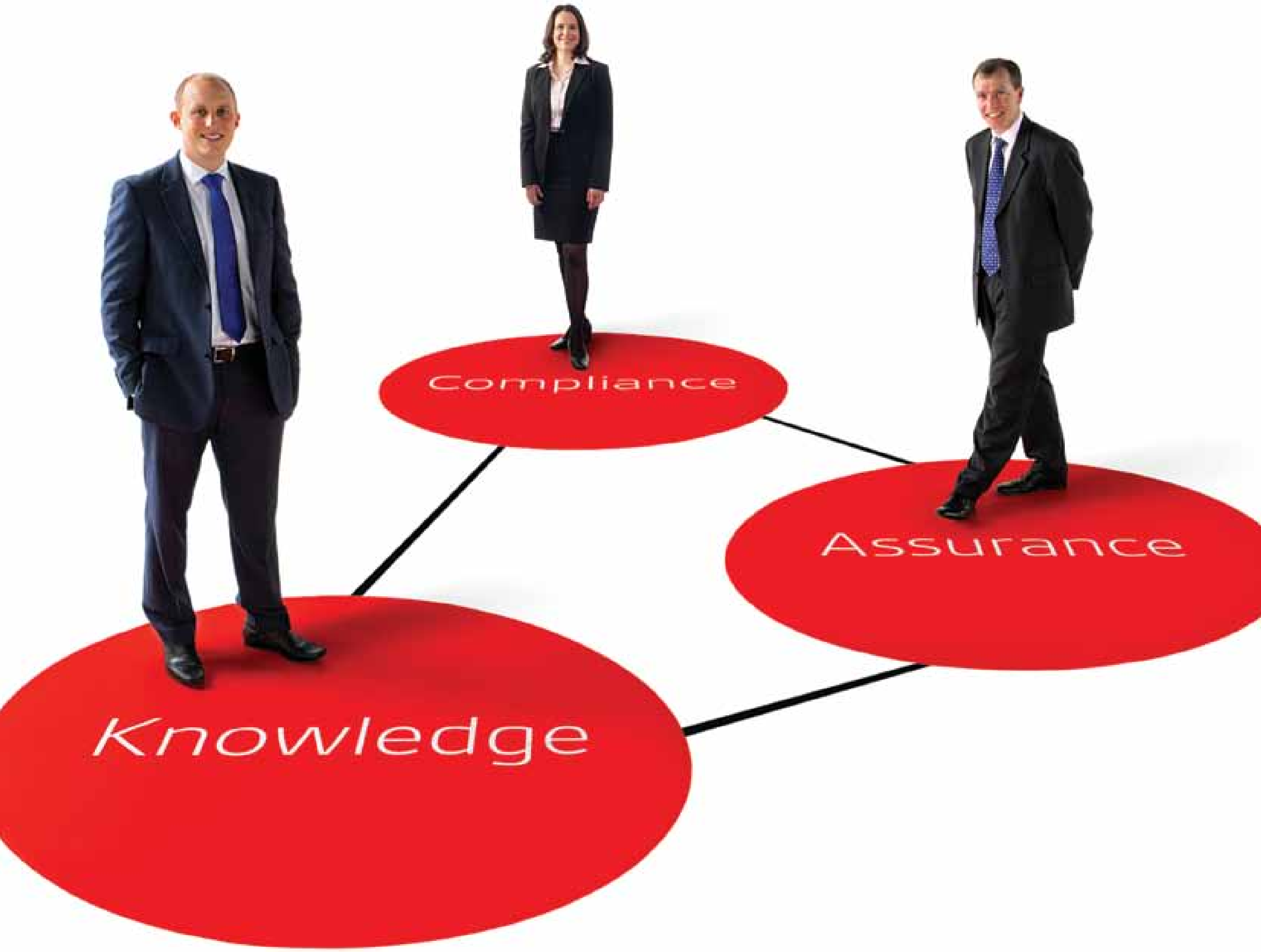
...making excellence a habit.™



The British Standards Institution

Annual report and financial statements 2012

Is "OK" enough for your business?

At BSI we believe the world deserves more than just "OK". That's why we've spent over 100 years helping our clients challenge mediocrity and complacency.

BSI is the business standards company that helps 68,000 clients worldwide adopt standards of best practice and turn them into habits of excellence.

With almost 2,800 employees, BSI's people understand the challenges organizations face and have the skills to recognize where and how continual excellence can be achieved to drive organizational performance, manage risk effectively and grow sustainably.

Formed in 1901, BSI was incorporated under Royal Charter as the world's first National Standards Body to develop standards for the United Kingdom. Over a century later, we are globally recognized as a champion of best practice. BSI is responsible for originating many of the world's most commonly used standards and publishes over 2,500 product specification and business process standards annually. These standards address the most pressing issues of the day – from clear billing to energy management and disability access to nano-technology – spanning sectors including aerospace, automotive, ITC, financial services, food, healthcare and construction.

Will Johnson-Marshall, Amanda Brewster and Paul Barrett, just three of almost 2,800 BSI employees worldwide who are focused on helping our clients make excellence a habit.

Why trust BSI?

For our expertise

In the world of standards we always have been, and intend always to be, the expert body.

For our integrity

With our ownership structure we are free to be completely objective.

For our value

While we are proud of our expertise and integrity, the thing we value most is delivering real business.

World's first National Standards Body

Royal Charter Company

Over 68,000 clients in 150 countries

Highlights of our year

- Healthy performance in challenging markets
- Record levels of revenue and profit
- Solid growth across regions and business streams
- New branding launched globally

Revenue

£254.6m

increase of 4% on 2011
(2011: £244.9m)

Underlying operating profit

£32.0m

increase of 11% on 2011
(2011: £28.7m)

Net asset value

£49.9m

increase of 16% on 2011
(2011: £43.0m)

Cash

£41.0m

increase of 3% on 2011
(2011: £39.7m)

In this report the 'Company' refers to The British Standards Institution, a Royal Charter Company, which is the parent company for the purposes of the financial statements. 'BSI', 'BSI Group' or 'Group' means the Company and its subsidiaries. The BSI logo, 'Kitemark', the Kitemark device and 'Entropy' are registered trademarks of The British Standards Institution in the UK and are registered, or in the process of registration, in other jurisdictions. Throughout this report the word 'underlying' is defined as 'before exceptional items and excluding the effect of disposals'.

Our business

Managing the day-to-day business of BSI

We deliver our portfolio of services across three geographical regions through three key business streams to develop global strategies for local clients.

We work for organizations all over the world.

Outside our global headquarters in Chiswick, London and our EMEA headquarters in Milton Keynes, UK, we have offices in eight other European countries and three more in the Middle East. Our Americas headquarters are in Reston, near Washington DC, US and we also have offices in Canada, Brazil and Mexico. Our Asia Pacific management team is based in Hong Kong and we have offices in ten other Asia Pacific countries stretching from Japan to Australia.

BSI Headquarters • Our offices

Who we work with

Our clients range from globally recognized brands to small, local companies in 150 countries, across 90,000 sites worldwide. A champion of excellence, BSI also has a client base that extends across a myriad of sectors.

- Mining and materials
- Aerospace
- Automotive
- Information technology and communication
- Financial services
- Education
- Agriculture and food
- Healthcare
- Construction

Find out more about the sectors we work with online at **www.bsigroup.com**

Our business streams

Knowledge

The core of our business centres on the knowledge that we create and impart to our clients. In the standards arena we continue to build our reputation as the expert body, bringing together experts from industry to shape standards at local, regional and international levels.

Europe, Middle East and Africa

Read more about each in our Business review on pages 8–14

Assurance

Independent assessment of an organization or the conformity of a product to a particular standard ensures that our clients perform to a high level of excellence. We are skilled in helping our clients understand how they are performing, thereby identifying areas of improvement from within.

Compliance

To experience real, long-term benefits, our clients need to ensure ongoing compliance to a standard so that it becomes an embedded habit. We train our clients to understand standards and how to implement them, as well as provide proprietary management tools to facilitate the process of ongoing compliance.

Americas

Asia Pacific

Our business continued

Helping organizations embed excellence

Whether in manufacturing or in services, in the developed world or rising economies, in large companies or small, what all organizations need is someone who can help them make excellence a habit.

Our process

Our services are designed to align with the steps individual clients need to take to understand best practice, how to achieve it and how to ensure that it remains an ongoing habit.

Shape

Together with independent experts, we tackle the issues of today and tomorrow by shaping the standards of excellence across products, business processes and business potential.

Share

We share our standards and guidance documents in a variety of formats, from paper to PDF and organization-wide licences.

Embed

Our tutors transfer the knowledge and skills clients need to embed our standards into their organization.

Assess

Our assessors measure clients or their products against a particular standard, so they can both improve their organization and promote themselves with confidence.

Support

Post assessment we continue to support our clients with the knowledge and tools they need for continual improvement.

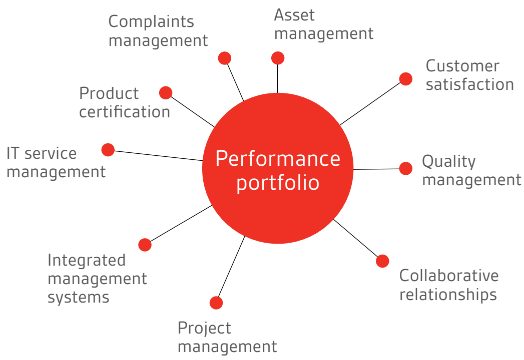
Our business expertise

Performance

Fine tuning organizations to **perform at their best**

Over 68,000 companies across the world, from small and medium sized businesses to 51% of the combined FTSE 100, Fortune 500 and Nikkei organizations, have found adopting BSI's performance management products and services can be the backbone to creating a more successful business.

BSI clients profit from more satisfied customers. They benefit from more efficient ways of working, better cost control, and faster and more effective implementation of new working processes.



ISO 9001 clients experience real benefits:

75%	improved their levels of customer satisfaction and loyalty
75%	boosted their operational performance
71%	acquired new customers and retained existing clients

Source: International BSI Excellerator Research

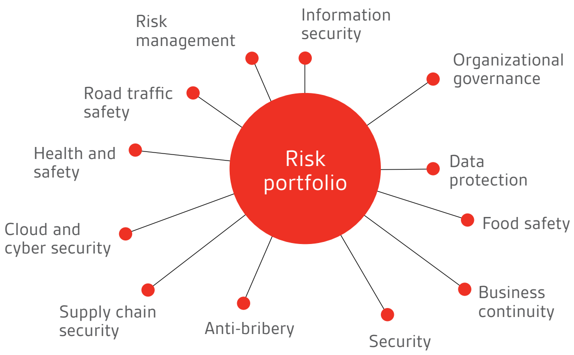
Find out more about the services we offer at **www.bsigroup.com**

Risk

Managing risk and **building stakeholder confidence**

Risk is often perceived negatively, but at BSI we know organizations that balance their risks benefit from greater opportunities and simultaneously defend, protect and enhance their reputation, business and brand.

BSI's risk-based solutions are designed to help organizations mitigate risk, improve business resilience, meet customer requirements and fulfil customer regulatory and statutory obligations.



Effective risk management can protect business reputation:

85% of information security clients built stakeholder confidence

79% experienced faster recovery speeds from incidents

83% of business continuity clients reported enhanced reputation as the key benefit

Sustainability

Saving money, energy and the environment

BSI is proud to have produced the world's first environmental management standard, now ISO 14001, back in 1992. Since then we have led the way with ongoing developments in environmental management, energy management, corporate social responsibility, product carbon footprinting and biodiversity.

BSI can help organizations deliver considerable environmental, economic and social benefits by providing a framework for managing sustainability.

Operating sustainability brings benefits to the bottom line and beyond:

63% of clients attribute direct cost savings to ISO 14001

74% report improvements to their corporate reputation

61% report higher staff morale

Chairman's statement

Another year of increased revenue and profit

"BSI's continued growth is evidence of the effectiveness of the careful strategic balance that the Board seeks to maintain between investing to build operational excellence in the present day and investing to keep BSI at the forefront of the development and deployment of standards now and in the future."

"BSI remained cash generative despite making our highest-ever level of investment in systems, products and people."

Sir David Brown
Chairman

In this, my first Chairman's statement since I succeeded Sir David John at the end of March 2012, I am pleased to be able to do as he did for every one of his ten years as Chairman and report another year of increased revenue and profit. That I am able to do so is attributable in large measure to Sir David John's decade-long unwavering commitment and energetic leadership. During that time, BSI not only prospered year after year but also invested in the longer term by building in Britain and all around the globe a unified team of BSI people which is respected by our clients and partners everywhere.

That philosophy of looking to the future as much as to the present, nurtured through the 111 years since BSI's beginning, positioned us well to meet the challenge of operating for another year in economically troubled markets. Our offer to our many thousands of clients throughout 2012 – that we will help them to make excellence a habit – resonated with their needs and drove the take-up of our products and services. The result was revenue and profit growth for the thirteenth consecutive year and another record performance. Also, significantly, BSI remained cash generative despite making our highest-ever level of investment in systems, products and people, and another substantial advance payment into the final salary pension scheme.

As a Royal Charter Company with no shareholders and therefore no stock exchange listing, BSI is not required to apply the UK Corporate Governance Code. However, consistent with our unique status as the UK National Standards Body and our commitment to our members, we nevertheless apply the principles of the Code where applicable and, in doing so, have established internal governance processes that reflect best practice in business today. The ultimate accountability for the governance of BSI lies with our widely experienced and seasoned Board of directors, which has a majority of non-executive directors. The Board is supported by Audit, Remuneration, Nomination and Social Responsibility Committees which are chaired by, and primarily consist of, non-executive directors. These formal committees are complemented by the Standards Policy and Strategy Committee, which does invaluable work in gathering and distilling the views of those interested in British Standards and advising the Board. Underpinning this governance framework, our structure of internal controls and financial management and, indeed, everything that every BSI employees does, wherever they do it, is the BSI Code of Business Ethics. It sets the ethical values and high standards of integrity that apply to every aspect of the way that we do business.

There were three changes to the Board of directors in 2012. The first was the retirement of Sir David John in March. The thunderous applause he received at the Annual General Meeting following his retirement was further evidence of the debt of gratitude BSI owes him. We wish him a long and pleasing retirement. The second was the appointment to the Board at the Annual General Meeting of Lucinda Riches, whose eminent career includes more than 20 years with UBS as an investment banker. Lucinda had been an advisor to the Board for a year prior to her appointment as a non-executive director, and in that role had already contributed strongly to the direction of the Group.

The third Board change was the retirement in September of Mike Low, Director, BSI Standards, after nine years of distinguished service. Mike led our standards team with an extraordinarily successful combination of energy and wisdom, for which we are very grateful. We wish him too a long and pleasing retirement. Mike handed over seamlessly to Dr Scott Steedman CBE, who had joined BSI in January and who I was pleased to welcome to the Board in October. Scott is a Fellow of the Royal Academy of Engineering with an enviable career history in the leadership of major international infrastructure projects. He chaired the European Council for Construction, Research and Innovation for over a decade. His election in November 2012 to the position of Vice-president Policy for the European Committee for Standardization (CEN) is testimony to his international standing. The Board, together with his many BSI colleagues around the world, looks forward to working with him in 2013 and beyond.

BSI's continued growth is evidence of the effectiveness of the careful strategic balance which the Board seeks to maintain between investing to build operational excellence in the present day and investing to keep BSI at the forefront of the development and deployment of standards now and in the future. It is evidence too of the trust that the users of our products and services place in us as they continue to navigate their way through these uncertain times. The Board is acutely conscious that trust in BSI resolves to trust in BSI people. We are very grateful to each and every one of BSI's employees, and to the very many BSI Committee Members and Subscribing Members without whose support BSI could not still be one of the most prominent standards bodies in the world today.

The Board looks forward to working with all the stakeholders in BSI to build on the successes of 2012 and to continue to earn the trust they place in us.

Sir David Brown
Chairman
21 March 2013

Revenue

£254.6m

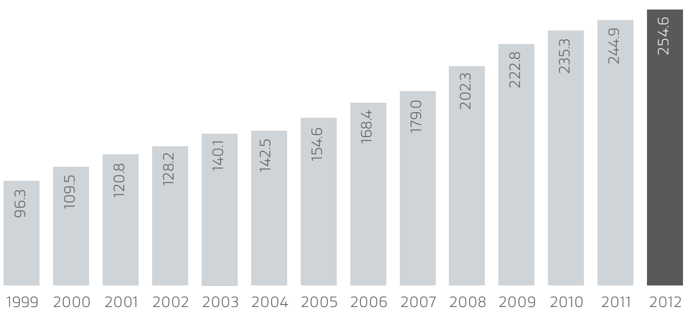
increase of 4% on 2011 (2011: £244.9m)

Underlying operating profit

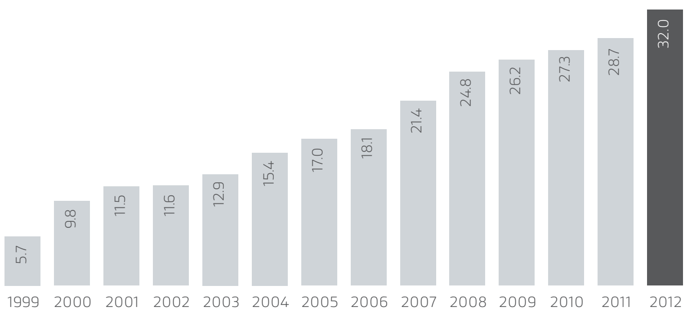
£32.0m

increase of 11% on 2011 (2011: £28.7m)

Revenue £m



Underlying operating profit £m



Chief Executive's review

Continued growth and investment

"Our performance was healthy and all business streams and geographical regions showed growth on their 2011 results."

"We will continue to invest in the organic growth of our business, and will complement this with selected acquisitions where appropriate."

Howard Kerr
Chief Executive

Summary

BSI is now a very different business to the one I inherited as Chief Executive four years ago. In 2012 we completed our rebranding to the new look you first saw in last year's report. Our new website, www.bsigroup.com, was launched during the year and clearly articulates the wide scope of our activities and the benefits we deliver. This was the final piece of the jigsaw as the business has been transformed into 'One BSI', an integrated global enterprise, able to serve clients from 61 offices in 27 countries across the world. Our five-year strategic plan is being executed effectively as we look to build scale across our business to serve these clients even better.

Day-to-day, the business is now managed through a strong matrix structure with three global business streams, Knowledge, Assurance and Compliance, being driven through three geographic regions, EMEA (Europe, Middle East and Africa), the Americas and Asia Pacific, supported by highly enabling central functions and innovative business systems. This is now overseen by an Operational Executive Committee that sets and manages to targets and reacts quickly and flexibly to changes in the competitive environment.

Our credo is 'Making Excellence a Habit'. This remains our ambition for everything we do in our business and the promise we make to our clients when they do business with us. It is what our clients expect to achieve by buying and implementing the standards we shape, by having these standards certified by our assurance teams, by having their staff trained in their management by our tutors and by having their management reassured by our compliance offering. The vast majority do, reporting improvements in their client satisfaction and loyalty and boosting their operational performance.

This has served us well as we have traded through the challenging economic conditions of 2012. Our performance was healthy and all business streams and geographical regions

Net asset value

£49.9m

increase of 16% on 2011 (2011: £43.0m)

Cash

£41.0m

increase of 3% on 2011 (2011: £39.7m)

Debt

£0.0m

level with 2011 (2011: £0.0m)

showed growth on their 2011 results. Overall, revenue increased organically by 4% (5% at constant exchange rates) and underlying operating profit by 11%. Indeed we have reported increases in both revenue and profit every year since 2000. Over 68,000 unique clients bought products and services from BSI in 2012, an increase of 5% to 2011. Our balance sheet ended the year with no external debt and £41.0m cash, even following capital expenditure of £8.9m and a contribution to our UK defined benefit pension scheme of £18.0m during the year.

Sector focus

Our increased focus on delivering real value to clients in core sectors has delivered strong results across the construction, healthcare, aerospace, automotive and ICT industries and we look to grow equally market-leading positions in other sectors, such as financial services and food. Success in these areas is underpinned by relevant standards and industry expertise. Increasingly BSI is seen as a thought leader in such sectors and able to create high quality solutions to meet the business regulatory and other stakeholder requirements of our clients. This gives them confidence that they can deliver quality, manage risk and grow sustainably.

Investments

BSI invested significantly during 2012, predominantly in enhancing our business systems to support our strategic plan, help our employees to be more effective and provide our clients with an excellent interface when dealing with us. We continued to develop our 'British Standards Online' (BSOL) platform and our online shop in line with the industry's move towards digital solutions. Significant investment was made in BSI Entropy Software™ our operational intelligence tool with a major new release to be launched later in 2013. We continue to invest in the further development of innovative new standards that not only meet the need of the economy and society today but also anticipate the requirements of the future.

Our two German businesses were merged and now share new offices in Frankfurt in keeping with our growing presence in this country. I announced last year that our UK Product Certification business was intending to move to new premises. Instead, after further review, we have decided to refurbish our existing premises in Hemel Hempstead and consolidate all activities there onto a single site. This will open in the summer of 2013 and will support the global expansion of this business.

People

During 2012 there were two changes to our Group executive team. In August David Horlock joined us as Managing Director of our Asia Pacific region. David brings with him a wealth of experience in our industry and I would like to welcome him to BSI. Mark Basham, the previous holder of this position, has returned to Europe as Managing Director of our EMEA region. Mark replaces Rob Wallis, who has left BSI to pursue other career interests. David, Mark and the rest of the Group executive team manage a talented global workforce that provides the expertise that brings us competitive advantage and differentiates us from our competitors. It is largely due to the efforts of almost 2,800 people servicing clients in almost 150 countries that those clients come to us and keep coming back to us. I would like to take this opportunity to thank each and every one of the BSI team for their hard work and demonstration of our core values of 'Integrity, Inclusivity and Continual Improvement' that guide us in everything we do. You make BSI what it is today.

We invest consistently in people development, providing a range of training and support tools to help individuals develop meaningful careers within BSI. I am pleased to report that BSI has been officially recognized as an 'Investors in People' (IiP) company in the UK. This was awarded following an intensive review in which BSI met, and in many cases exceeded, over 93% of the evidence requirements of the IiP framework used for the core standard. During 2012 we undertook our second global Employee Engagement survey. Questions asked are grouped into 17 employee engagement dimensions and we improved our ratings in 16 of these and equalled the very high rating achieved previously in the 17th. In particular our people, by their responses, demonstrated their pride in the quality of the BSI products, services and ethics and their belief in our brand values. As always there is room for improvement in some areas and these are being addressed across the Group. We instigated our 'Sales Excellence Academy' in January 2012 to address the need for formal sales training for our global sales resource, and this year are launching our 'Assessor Academy' for our Assessment teams. We look forward to enjoying the benefits of these, and the many other, initiatives in this area.

Outlook

2012 was another record year for BSI, with revenue and profit growing for the 13th consecutive time. Current economic conditions are challenging for many of our clients but we believe that BSI remains a trusted partner for them and increasing engagement proves that they derive many benefits from the application of our products and services at all stages of the economic cycle. As we embark on the next chapter of BSI's long history we anticipate continued growth as we realise our full potential, based on our reputation, competitiveness and international footprint.

We will continue to invest in the organic growth of our business, particularly where short-term costs will be outweighed by longer-term benefits, and will complement this with selected acquisitions where appropriate. This strategy has been successful during 2012 and I look forward to continuing down this path during 2013 and beyond.

Howard Kerr
Chief Executive
21 March 2013

Performance by geography

"Our increased focus in delivering real value to clients in core sectors has delivered strong results."

Case study: SAMSUNG

SAMSUNG implements multiple standards to achieve vast company benefits

SAMSUNG Electronics Co. Ltd, the flagship subsidiary of SAMSUNG Group with operations in 61 countries, approached BSI to reinforce their commitment to realizing their corporate vision, "Inspire the World, Create the Future" through the adoption of internationally recognizable standards.

BSI solutions

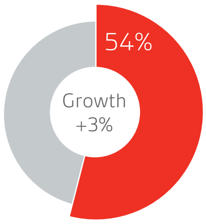
Over the last 22 years BSI's key standards such as Quality Management (ISO 9001), Information Security (ISO 27001), Health and Safety (OHSAS 18001) and Environmental Management (ISO 14001) were successfully implemented across numerous sites throughout Asia. As well as enhancing corporate image, SAMSUNG was able to save costs and improve the quality of its products.

Why choose BSI

"BSI has a trustworthy brand image, the assessment process is professional and their auditors are excellent. As a result we were able to make valuable improvements to our business."

Myung-Seon Cha
Senior Manager Quality Assurance Team

Europe, Middle East and Africa



Revenue
£138.3m
increase of 3% on 2011 (2011: £134.9m)

Employees
1,379 including head office (2011: 1,375 employees)

Offices
UK, the Netherlands, France, Spain, Italy, Germany, Turkey, Poland, Russia, the UAE, Qatar and Saudi Arabia

Improved client service across the region

The European economy was challenging again in 2012, with the Euro-zone crisis continuing throughout the year and economic growth rates very low, even negative in some cases. With this backdrop it is pleasing to be able to report growth in our EMEA region of 3%.

In mid-year, our EMEA region underwent a significant management change, with Mark Basham returning from Asia Pacific, where he was Managing Director, to a similar role in Europe. Mark manages the Assurance and Compliance business streams in the region; Shirley Bailey-Wood, Director of Publishing, continues to manage the Knowledge business stream globally.

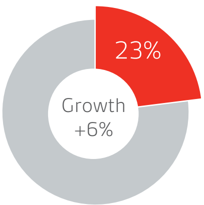
In the UK we re-aligned our service delivery structure to increase our focus in key sectors such as aerospace, information security and risk based specialist products. In addition we created a Global Account Management team as we find that many of our larger our clients demand a more connected service across their operations. New and enhanced Systems Certification products were launched during the year, including new assessment services in BS 11000 (Collaborative Business Relationships), recognizing the increase in interest in this area, and a verification scheme for anti-bribery.

During 2012 we completed the legal merger of our two German businesses, BSI Germany and EUROCAT, into a single trading company. The two offices, in Hanau and Darmstadt, were closed and the new, combined business was moved into flagship new offices in Frankfurt, from where we will be able to serve our clients better and drive growth in Germany, one of the most important certification markets in the world, and in the rest of the Central European sub-region.

Late in the year we announced a significant investment in our Product Certification business in Hemel Hempstead in the UK. The building housing our UK laboratories will be completely refurbished, demonstrating our commitment to this business and to the local area, where we have been established for over sixty years.

Sales of BSI Entropy Software™ our operational intelligence tool increased in the UK during 2012. In addition the first sales of this product were recorded in France, Turkey, Italy and the Middle East during the year.

Americas



Revenue

£57.8m

increase of 6% on 2011 (2011: £54.3m)

Employees

528 (2011: 552 employees)

Offices

US, Canada, Mexico and Brazil

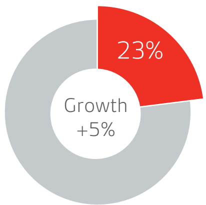
Continued progress in all countries

Against a backdrop of the US presidential election and ongoing security risks in Mexico, BSI Americas delivered another solid performance in 2012, with revenue growth of 6% across the geographical and product portfolio. While our Systems Certification and Medical Technology businesses remain the cornerstones of the performance in the region, the year showed significant development and growth in our Knowledge products, Training and our other Compliance offerings, making it a good all-round result.

In the US, the second largest market for BSI after the UK, economic and political issues continued to slow both capital expenditure and discretionary spending amongst our clients and healthcare costs continued to rise due to government intervention. The core Systems Certification business performed well but the greatest progress was in the business streams traditionally more peripheral and complementary to our business, which augurs well for 2013 and beyond. In particular our training courses gained traction in the market and sales of BSI Entropy Software™ and our Supply Chain Solutions both grew by over 20% in the year. Both gained a significant number of additional Fortune 200 clients.

As well as the US, our Americas region has sizeable subsidiaries in Canada, Brazil and Mexico. In Canada the economy remained stable yet cautious throughout 2012. Our new head office was opened in Toronto and provides a suitable location for our management team and our clients. Overall the year was one of healthy growth in the adoption of core standards for quality, environmental, safety and medical devices. The Mexican economy remained relatively robust during the year, despite political change, ongoing security risks and aggressive pricing strategies evident in our industry. In Brazil the economy slowed during the year but some modest growth was still achieved. The business continued to expand geographically within Brazil, where we have offices in six cities across the country, and in the BSI product portfolio.

Asia Pacific



Revenue

£58.5m

increase of 5% on 2011 (2011: £55.7m)

Employees

889 (2011: 803 employees)

Offices

China (including Hong Kong), Singapore, Australia, Japan, India, Indonesia, Korea, Thailand, Vietnam, Malaysia and Taiwan

Strong, profitable growth in our developing markets

Asia Pacific grew at 5% during 2012. This was encouraging momentum in the region despite the continuing slowdown in two of our major markets, Japan and India, where BSI still outperformed the total market growth rate. Growth in the smaller ASEAN countries was even more positive at 24%, providing optimism for the future.

2012 marked a change in the Asia Pacific management structure with a new Managing Director, David Horlock, joining the Group in August and replacing Mark Basham who returned to the UK as Managing Director for the EMEA region. In February 2013 the Head Office for the region was moved from Singapore to new offices in Hong Kong.

During 2012 BSI demonstrated some industry-leading performance in the Asia Pacific region. In Japan BSI implemented its first Publicly Available Specification (PAS) outside the UK to an automotive parts distributor for a testing method to demonstrate durability and performance of engines. This is a significant development in the globalization of our Knowledge business stream and its expansion across the Asia Pacific region. The development of publishing capabilities in the region permitted contacts to be established in every one of our territories, with a significant number of new clients using our flagship British Standards Online (BSOL) product.

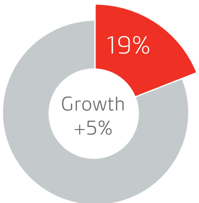
In November 2012 the final share transfer from our original Chinese joint-venture partner was completed and BSI China is now fully owned by the Group. BSI China was also successfully accredited for Quality Management Systems by the China National Accreditation Service for Conformity Assessment (CNAS) in April 2012 and became one of the few foreign certification bodies with Quality, Environmental and Occupational Health and Safety Management Systems accreditation by this national accreditation body.

Our Product Certification business was successfully implanted in Asia Pacific during 2012, with local service capabilities in place for selected countries in the region. Strong revenue growth was reported in 2012 and this remains an area for further development in 2013 and beyond.

Performance by business stream

"BSI is seen as a thought leader in many sectors and able to create high quality solutions to meet the requirements of our clients."

Knowledge



Revenue

£47.7m

increase of 5% on 2011 (2011: £45.6m)

Innovative standards in a diverse range of sectors

Following a slight fall in revenue in 2011, this business stream bounced back strongly in 2012 with growth of 5%, demonstrating the value our clients put on standards even in constrained trading conditions.

Again we demonstrated good growth in subscription products, in line with the industry transformation from print to digital and reflecting successful investment in our sales capability in this area. Royalties from our distributors performed well, reflecting global demand for our products and some licensing extensions. We continued our engagement with a broad range of industries seeking their own standards based solutions and revenue from our Publicly Available Specifications (PAS) almost doubled during 2012. Our membership revenue showed modest growth despite a slight decline in membership numbers, especially at the lower value end of the spectrum.

Knowledge has traditionally been a UK-centric business stream for BSI and it is good to be able to report double digit growth in Continental Europe, the Americas and Asia Pacific. The globalization of this business stream remains a key strategic initiative for us and we are working with BSI's international client base which is increasingly seeking the development of specifications tailored to their local requirements. Indeed we released our first PAS outside the UK during the year, into the automotive industry in Japan.

We continued to invest heavily in our online product capabilities and, in 2012, launched the 'Eurocodes PLUS+' workflow tool, the uptake of which will be driven by the market's migration to Eurocodes. We invested further in our 'British Standards On-line' (BSOL) tool, and a new version of this will launch in 2013.

In a changing world our product offering evolves to suit our clients. We invest in new standards, new platforms and new geographies to ensure that we match their requirements. Our growth in these challenging times shows the trust that our clients place in BSI and ensures that we remain a trusted partner in their uptake and use of knowledge across their organizations.

Case study: Petrofac

Petrofac uses BSOL to deliver world-class oilfield services

Petrofac is a leading international service provider to the oil and gas production and processing industry, with a diverse customer portfolio including many of the world's leading integrated, independent and national oil and gas companies. With over 18,000 employees, Petrofac operates out of seven strategically located operational centres, in Aberdeen, Sharjah, Abu Dhabi, Woking, Chennai, Mumbai and Kuala Lumpur.

BSI solutions

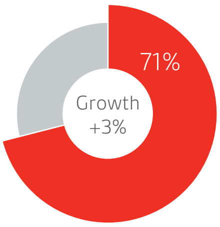
Petrofac uses BSOL to manage standards, especially the complex engineering specifications needed to build and maintain oil and gas infrastructure. In the past they used hard copy standards, with each office having a separate library. This meant every library having a limited collection, and licensing the same document for different sites.

Why choose BSI

"In the past every time we used a standard we'd have to check if it was current or not current. We actually had to hire a company who would come in every three months to update all our standards. Now with BSOL everything is either current or if it is non-current then it is shown as non-current, so that part of my job is much easier."

Anitha Alackappally
Technical Services, Petrofac

Assurance



Revenue

£181.5m

increase of 3% on 2011 (2011: £176.9m)

Continuity for our clients
in diverse markets

Systems Certification
Systems Certification grew by 3% during 2012. New products for Systems Certification were developed during 2012, and existing products refreshed, including a verification scheme for anti-bribery in the UK, a global scheme for road traffic safety, a transition to international standards for business continuity and energy management and an extension to existing accreditations in the aerospace market.

The BSI Excellerator was launched as the first service available to our clients that allows them to understand how their performance against a standard compares to industry norms. It provides a comparison across their sites and, based on their audit history, predicts future areas of strength or weakness in their management systems.

During 2012 we reviewed the best practice that has developed around our international offices and have built on this to develop a client focused programme to standardize our internal processes. Our IT systems have been rewritten to support this initiative and were re-launched in early 2013.

We continue our strong support for independent accreditation of BSI. During 2012 we maintained our global accreditations with the ANSI-ASQ National Accreditation Board (ANAB) and the United Kingdom Accreditation Service (UKAS) and local accreditations with national bodies where appropriate.

Product Certification
Product Certification declined by 4% in 2012 due to the loss of a single large contract in the UK. In 2012 we introduced new, market focused, products and schemes. Our inclusion in the European Fire Safety Group (EFSG) will add value to our European clients as it will allow certification in the UK to be used in other European Certification schemes. Verification certificates will enable clients to demonstrate that their products and services conform to rapidly changing standards and our recently developed 'Gap Analysis' will support manufacturers in the early stages of product development to understand how their product performs against relevant standards.

An Asia Pacific Certification organization was completed, enabling local business development, testing and invoicing. The BSI Associate Laboratory Programme was introduced, establishing partner laboratories to support our certification schemes in specialist technologies and geographical expansion, and we began the programme to upgrade our UK testing facilities, focusing on three centres of excellence and building on our heritage in Hemel Hempstead.

We built a robust offering to support the British Government's Green Deal initiative. We have uniquely achieved accreditation by UKAS to all elements of the Green Deal and have developed energy efficient Building Kitemark™ schemes based on extensive consumer research. We now have contacts with a major UK retail chain to support their Green Deal and Energy Efficiency programmes.

Medical Devices
This sector faced a slowdown in 2012 with less access to venture capital and the US sales tax levy which reduced innovation and led many global players to consolidate and shed jobs. Despite this our Medical Devices business stream grew at 8% during the year, buoyed by particularly strong growth in EMEA and Asia Pacific.

We strengthened our market-leading position in the US, the largest market in the world, and achieved significant growth for the second successive year in the large German market. Other important markets, including Japan and the UK, both performed well and achieved double-digit growth.

In terms of new product development, key achievements during the year included gaining traction with BSI Entropy Software™ our operational intelligence tool in the US and a key early development lifecycle product for Clinical Strategy Review.

We played a leading role in 2012 in shaping and developing the European regulatory landscape. As a founder member of Team NB (Notified Body Industry Group), we were integral in writing the code of conduct seen by both industry and the European Commission as a blueprint for improved competence in the sector.

Performance by business stream continued

"Current economic conditions are challenging for many of our clients but we believe that BSI remains a trusted partner for them."

Case study: Kellogg Company

Kellogg Company – The Snap™, Crackle™, Pop™ of BSI Entropy Software™.

Strong partnership continues to grow

Kellogg Company is a place where innovation lives, where quality of foods is paramount, so that they can continue to deliver the very best to customers and consumers. Kellogg uses Entropy™ Software.

BSI solutions

For the past three years, Kellogg has been a super user of BSI Entropy Software, or KCAPP (Kellogg Cares About People and Planet) System as it is better known within the company. KCAPP leverages the full functionality of the system, integrating all five of the BSI Entropy Software core modules into the management process: Audit & Compliance, Incident Management, Performance Management, Knowledge Management and Risk Management.

Prior to the implementation of KCAPP, Kellogg had disparate systems for handling environmental management and health & safety (EHS) incidents. Their objective was to find a solution that streamlined their internal EHS compliance audit process and reduced time reporting. The Kellogg team needed a complete view shared among auditors, managers, and executives in real time so they could collaborate effectively on audit and compliance activities.

BSI Entropy Software provides Kellogg with a simple management solution that significantly reduces the cost and effort needed to proactively manage risk, improve performance, and help its business continue to grow. Used globally, at more than 200 of the company's facilities, BSI Entropy Software provides a number of powerful features that drive continual business improvement throughout the organization.

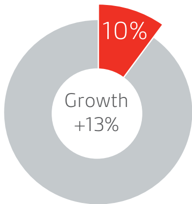
Why choose BSI

"Kellogg is proud to partner with a company like BSI. BSI maintains a global reputation for best practice and continual improvement not only in standards and management systems, but also in the innovative solutions they provide."

Diane Holdorf
Chief Sustainability Officer
VP Health and Safety

Kellogg is an exceptional example of how strong corporate values and commitment to excellence align with BSI's services and the steps individual clients need to take to understand what is best practice, how to achieve it, and ensure that it remains an ongoing habit.

Compliance



Revenue

£25.4m

increase of 13% on 2011 (2011: £22.4m)

Market-leading products and services

Training

Our Training business continued to develop strongly during 2012. Revenue increased by 12% on 2011 with strong performances from the UK, China, the Middle East, Mexico, Korea and Japan.

Over 8,000 more delegates attended our public and in-house courses in 2012 than in the previous year, with the business extending its planning and promotional deadlines by an average of four months to optimize client booking patterns.

Our new products performed well. Revenue from the new ISO 50001 (Energy Management) course increased by 85%, the ISO 22301 (Business Continuity Management) course by 14%, and the Medical Devices courses by 34%.

Risk and Compliance Management

Sales of BSI Entropy Software™, our operational intelligence tool, increased by 12% in 2012. Growth was strongest in the US.

New clients were registered in Japan, Italy, France, Turkey and the Middle East and the product is gaining momentum in other countries outside our traditional US/UK axis, such as Australia and Brazil.

Significant investments are being made in the software to develop improvements in usability, performance, user flexibility and configurability and reporting with a material upgrade scheduled for release in 2013.

Supply Chain Solutions

Knowing the suppliers at every stage of the supply chain is becoming more and more important at both governmental and commercial levels across the world. BSI provides solutions with ever-increasing commercial appeal in this market and revenue grew by almost 60% during 2012.

The Customs-Trade Partnership against Terrorism (C-TPAT) programme has put teeth into the Supply Chain Security issue in the US. BSI is educating the government and global marketplace about the importance of understanding in this area.

The global market adoption rate is accelerating, and we have signed deals with several significant companies, across various industrial sectors in the US, Europe and Asia.

BSI Standards review

Standards matter

“BSI was active in shaping the new European standardization regulation, reinforcing the values and independence of the standardization network internationally.”

“We engaged with international partners to tackle common issues affecting the global National Standards Body community and to promote the use of British Standards.”

Scott Steedman
Director of Standards

Standards matter. Over the past year we have placed great emphasis on re-orienting our standards policy and strategy towards an agenda based on the vision that standards are knowledge for business and industry. 2012 marked the retirement of Mike Low from the role of Director of Standards and my appointment in his place. We used the handover period to strengthen our relationship with HM Government and the wider UK stakeholder community, including our valued Committee Members on whom our standards making process depends. It was also a period during which we engaged with international partners across Europe, the US, the Gulf, India, China and South-east Asia to tackle common issues affecting the global National Standards Body (NSB) community and to promote the use of British Standards.

The role of standards in 2012

The past year has been one of significant change across the standards landscape at a political level and we expect this trend to continue and, indeed, to accelerate. There is increasing interest at European level in broadening the involvement in standards making by SMEs and societal stakeholders, as we already do in the UK. This has contributed in part to changes in the European regulatory landscape with the release of the new standardization regulation (EU No 1025/2012) in October 2012, as well as moves in numerous countries to clarify the referencing of standards in regulation. BSI was active in shaping the new European standardization regulation, reinforcing the values and independence of the standardization network internationally.

The role that standards play to bring ideas to market faster and to help business and industry engage with new and emerging technologies was recognized in the 2012 review by Lord Heseltine which set out a comprehensive economic plan to improve the UK’s ability to create wealth. Lord Heseltine commented specifically on the role of standards: “The UK should exercise leadership in the development of standards that support all areas of technological research, development and innovation to drive growth in UK industry.”

BSI Standards review continued

Engaging with government

Our work with the cross-government committee, 'Taking Standardization Forward', helped us to develop better understanding and to promote the use of standards by government. In 2012 we delivered a standards and accreditation e-learning package, a tool for government officials to learn more about the effective use of standards and accreditation to achieve policy goals. This will be hosted on the Civil Service Learning website.

In 2012, we started a series of in-department seminars through which our people visited a range of government departments to help staff to gain a much better understanding of how standards can help them to achieve their objectives. The first seminar took place at the Department for Environment, Food and Rural Affairs (DEFRA) in October.

Eurocodes PLUS+

The Eurocodes suite of standards was developed for civil and structural engineers across Europe to provide a suite of technologically sophisticated standards for construction design and to remove barriers to trade throughout Europe. Recognizing the complex nature of the Eurocodes, we developed an innovative online service, Eurocodes PLUS+, based on extensive market research and collaboration with a wide cross-section of representatives from construction and engineering companies. The Eurocodes PLUS+ product attracted a number of important new clients in 2012; development work has also progressed to improve and enhance the tool.

Smart cities standards strategy

Tomorrow's 'smart cities' will harness the latest data capture and communication management technologies to deliver high quality services to citizens. Smart approaches to transport, utilities and waste management could transform the efficiency and sustainability of urban communities, leading to significant reductions in service provision costs and carbon emissions. Standards are needed to address issues of governance, decision making and measurement, as well as technological issues. During 2012 BSI completed a standards strategy for smart cities for the Department of Business, Innovation and Skills (BIS), to address technical specifications and classifications that support interoperability (i.e. devices and systems working together), the metrics against which benefits can be assessed and good practice documents that details controls. The strategy identifies where standards are needed to accelerate the roll-out of smart cities and support UK providers of smart city solutions. This pioneering project required us to collaborate closely with the leading experts in this field and to manage a gap analysis and consultation process to validate the approach, which resulted in a consensus-based work programme for the delivery stage in 2013.

Implementing smart city projects will pose significant challenges for city authorities. A smart cities standards forum has now been set up; guidance and best practice documentation is required and this will provide a roadmap for delivering smart city projects, as well as an overview of key information governance issues. Interoperability between devices, other infrastructure elements and service delivery channels will also be crucial to the successful implementation of smart city projects. An interoperability standards workshop has already been held to determine future work, which is an early, but important, step forwards on the path to specifying standardized interoperability requirements.

New standards

Our business continuity management systems standard goes global

Business continuity standards enable organizations to carry on when faced with problems that could otherwise cause severe disruption. This includes being able to continue to deliver products and services to customers, while safeguarding an organization's brand and reputation. Nine years' development work came to fruition in 2012 with the publication of ISO 22301 (Business Continuity Management), which internationalized the national standard for business continuity management, BS 25999-2, and the business continuity publicly available specification, PAS 56.

ISO 22301 is based on the 'Plan-Do-Check-Act' model that seeks to provide improvements through proficient planning, implementation, supervision, review and maintenance. The new international standard details requirements for setting up and managing an effective business continuity management system, regardless of an organization's type or size. It was developed following the strong international interest that had built up in our forerunning UK national standard, BS 25999-2, and is a great example of UK leadership in influencing international standardization.

A PAS for installation requirements under the Green Deal

The Green Deal is HM Government's flagship policy for improving the energy efficiency of buildings in the UK. Developed by the Department of Energy and Climate Change (DECC) the Green Deal is based on the principle that physical measures that boost energy efficiency in domestic housing are self-funding because of the savings on fuel bills they provide.

"As the UK and world economy continued to struggle to recover from the crises of recent years, the role of international standards has never been more important."

Two new BSI standards related to the Green Deal were published during 2012, PAS 2030 (Improving the Energy Efficiency of Existing Buildings) and PAS 2031 (Certification of Energy Efficiency Measure Installation Services). Both were delivered in less than a year, with full cross-industry support. PAS 2030 was published in February 2012 and is intended to assist those who install, manage and provide energy efficiency measures in existing buildings. PAS 2031 was published in March 2012 and is for use by certification bodies when evaluating conformity of those working with PAS 2030.

A new PAS for construction supply chain data
2012 brought new developments in the breakthrough work on a suite of standards for the management of construction supply chain data, PAS 1192-2 (Building Information Management). Sponsored by the Cabinet Office, the work on Part 2 of this important standard on Building Information Modelling and Management (BIM) addresses data interoperability of construction stage data.

International projects

The BSI International Projects team continued to work on a number of important technical assistance projects during 2012. The European Commission-funded INOGATE programme is an international energy cooperation initiative between the European Union and the partner countries of Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. The project was intended to assist these countries to achieve the Baku Initiative and Eastern Partnership objectives, including a reduction in dependency on fossil fuels and imports, improvement of energy supply security and overall climate change mitigation. In Rwanda, we worked to assist the institutional development of the Rwanda Bureau of Standards by offering strategic support as well as raising awareness among the private sector of the business benefits of standards and increasing its capacity-building in this area. In Ukraine, our projects team worked on an EC-funded contract to gain international recognition of the work of the National Accreditation Agency of Ukraine in providing accreditation services in the areas of testing laboratories, calibration laboratories, management system certification bodies, product certification bodies and inspection bodies.

We also successfully completed in August a major €4.8m EC-funded project in Turkey which had been launched in May 2010, under which we provided technical support that to strengthen Turkey's quality infrastructure. This was a complex project that required delivering some 200 training sessions on standards including as ISO 14001, ISO 14064, energy labelling and on the REACH Directive.

External policy

2012 was a particularly busy year for BSI in our role as the UK NSB. In the UK, we broadened and deepened our engagement work with government and our stakeholders, publishing a new vision of the role of standards as knowledge for business and industry. We explored new areas of standards development through the use of the PAS model, promoting the benefits of standards strategies in innovation, emerging technologies and in business potential. We worked closely with the Better Regulation Executive throughout the year to explore ways that standards can be used as an alternative to regulation.

At European level we were successful in securing my own election as Vice-president (Policy) for the European Committee for Standardization (CEN) for a three-year term to follow Mike Low from 1 January 2013. CEN and its partner European Standardization Organisation (ESO), CENELEC, manage the relationship between the European NSBs and the Commission and it is clearly important that the UK maintains its influence in this domain.

As the UK and world economy continued to struggle to recover during 2012 from the financial crises of recent years, the role of international standards as enablers of trade has never been more important. We see BSI as leading the work to develop and disseminate standards of all types that will unlock innovation and growth. None of this would be possible without the tireless work of our 10,000 Committee Member experts and their Committee Chairmen during the year, who guide and coordinate the technical experts and public consultation processes under the oversight of the Standards Policy and Strategy Committee (SPSC) and its chairman, Mike Nichols. We greatly appreciate their commitment and support.

2012 was another successful year for the NSB and for standards development by BSI. We continue to see huge potential for voluntary, market-driven standards to power development, to strengthen businesses and to deliver better social, economic and environmental outcomes for all.

Scott Steedman

Dr Scott Steedman CBE
Director of Standards
21 March 2013

Financial review

Benefiting from the diversity of BSI

"Both revenue and underlying operating profit increased, as they have every year since 1999."

Revenue

£254.6m

increase of 4% on 2011 (2011: £244.9m)

Underlying operating profit

£32.0m

increase of 11% on 2011 (2011: £28.7m)

Craig Smith
Group Finance Director

Overview

Trading conditions across the globe during 2012 were challenging and the performance of BSI was creditable under these circumstances. Each of our three geographical regions and three business streams reported revenue growth over 2011, testament to the geographical, industrial and cyclical diversity of BSI which offers a natural hedge to economic fluctuations in any given sector or region. Indeed, for the Group as a whole, both revenue and underlying operating profit increased, as they have every year since 1999. The compound annual growth rate over this period was 8% for revenue and 14% for underlying operating profit.

Revenue in 2012 was £254.6m, an increase of 4% over the £244.9m recorded in 2011. Revenue increase would have been 5% at constant exchange rates. Gross margin was level with 2011 at 49.3%. However a relative reduction in indirect costs meant an increase in margin at underlying operating profit level of 0.9 percentage points from 11.7% to 12.6%. Underlying operating profit increased by 11% from £28.7m in 2011 to £32.0m in 2012.

Exceptional items in 2012 were actually an income of £0.9m (2011: £1.8m cost) as the release of provisions outbalanced the cost of restructuring programmes. This meant that operating profit increased by 22% to £32.9m (2011: £26.9m). Finance income increased to £0.6m (2011: £0.2m) due to more proactive investing of the Group's cash, and finance costs, materially relating to the net interest cost of our defined benefit pension scheme minus the return on its assets, were £2.0m (2011: £2.9m). Our effective tax rate on profit before tax fell from 28.1% in 2011 to 26.0% in 2012 and the underlying tax rate before financial and exceptional items also fell to 29.2% (2011: 30.0%). The profit for the year increased by 34%, from £17.4m in 2011 to £23.3m in 2012.

We ended the year with no debt and cash of £41.0m (2011: £39.7m). This increase in cash was after a contribution to the UK defined benefits pension scheme during the year of £18.0m (2011: £17.0m). According to the agreed schedule of contributions only £3.0m was due to be paid during 2012. The additional £15.0m was a prepayment of 2013 contributions, meaning that only £5.0m is due in this year.

Exchange rates

We translate our balance sheets into Sterling at year-end exchange rates. For our profit and loss accounts we use a weighted average rate so the figures in the table opposite are an approximation. For our major currencies this table shows the rates used for 2011 and 2012.

If our 2012 revenue were to be translated at 2011 exchange rates it would be £2.5m higher at £257.1m. The influence on underlying operating profit was insignificant. All numbers in this report are shown at prevailing rates.

Revenue and operating profit

Revenue for 2012 was £254.6m, an increase of 4% on 2011 when £244.9m was reported. This increase would have been 5% at constant exchange rates. Each of our regions and business streams reported increases. Geographically the Americas grew on 2011 by 6%, Asia Pacific by 5% and EMEA 3%. In terms of our business streams our Assurance business grew by 3%, our Knowledge business rebounded well from a sales decrease in 2011 to record a 5% increase this year and our fledgling Compliance business grew by 13%, with all three components, Training, BSI Entropy Software™ and Supply Chain Solutions, achieving double digit revenue growth.

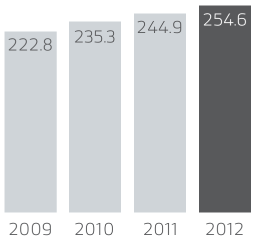
Exchange rates

	Year ended 2012	Year ended 2011	Average 2012	Average 2011
Euro	1.22	1.20	1.23	1.19
US Dollar	1.61	1.56	1.59	1.61
Japanese Yen	138.51	121.51	130.46	121.47

Financial KPIs

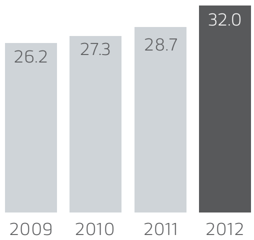
Revenue £m

£254.6m
+4%



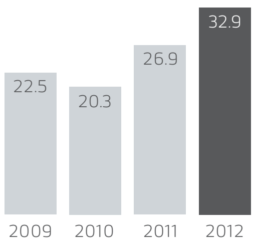
Underlying operating profit £m

£32.0m
+11%



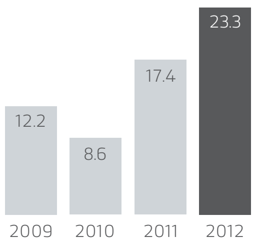
Operating profit £m

£32.9m
+22%



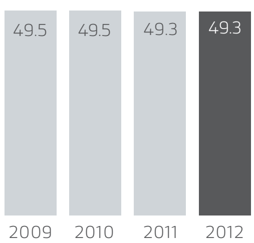
Profit for the year £m

£23.3m
+34%



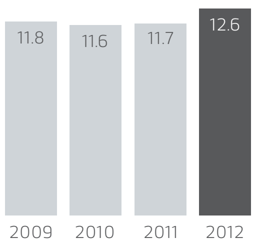
Gross profit margin %

49.3%
+0 percentage points



Underlying operating profit margin %

12.6%
+0.9 percentage points



"BSI has no debt and, consequently, no finance cost related to borrowings."

Revenue and operating profit continued
Gross profit margin for the year was level with 2011 at 49.3%. Across such a geographically diverse and varied business product mix can have an effect on the overall margin and, with price pressures increasing in some areas of our business, it is pleasing to maintain overall stability in this area. Selling and distribution expenses increased by 4% and administrative expenses were level with 2011, aided by a release from the Long Term Incentive Plan provision of £0.9m (2011: £0.7m cost). This meant that total indirect costs increased by only 2%, around half the rate of the revenue increase.

Underlying operating profit was £32.0m, an increase of £3.3m or 11% over 2011, when £28.7m was reported. This implies an underlying operating profit margin of 12.6%, which is an improvement of 0.9 percentage points over last year. After exceptional items, financial items and taxation are taken into consideration, the profit for the year increased by 34% from £17.4m in 2011 to £23.3m in 2012.

Exceptional items
Exceptional items in 2012 amounted to a net credit of £0.9m (2011: £1.8m cost). There were two major costs included in this figure. We spent £1.1m restructuring our German business, merging our two legal entities into a single trading company and bringing together the people from their Hanau and Darmstadt offices into a single new office in central Frankfurt, from where we will be able to serve our clients better and drive growth in the country. There was also a cost of £0.3m relating to the finishing touches to our new EMEA headquarters in Milton Keynes, UK.

These were outweighed, however, by two releases of previously created provisions. In 2011 we announced that our UK Product Certification business was to move to new premises. After further review we decided to refurbish instead our existing building in Hemel Hempstead, UK and have released £0.7m of restructuring provision that is no longer required. In addition we have released a legal provision of £1.6m relating to the disposal of our Inspectorate business in 2005 as the risks related to this provision have now been mitigated.

Finance income and costs
BSI has no debt and, consequently, no finance costs related to borrowings. In 2012, however, we did begin to invest our cash surplus more proactively and in line with a new investment policy approved by the Board. Consequently financial income increased to £0.6m (2011: £0.2m). The finance cost shown on the face of the consolidated income statement relates materially to the net pension scheme interest cost less the return on the pension scheme assets. In 2012 this amounted to £2.0m (2011: £2.9m).

Taxation
The Group effective tax rate (ETR) in 2012 was 26.0% (2011: 28.1%). Eliminating the prior year adjustments the ETR was 25.7% compared to 31.4% last year. This reduction is primarily due to the UK non-taxable release of the exceptional provisions mentioned above, and the deferred tax impact of decreasing UK corporation tax rates.

Of course the ETR at this level does not adjust for the exceptional costs and finance income and costs so the ETR on underlying operating profit is a better indicator of the tax management of our operating businesses. Adjusting for exceptional costs and finance income and costs the ETR on underlying operating profit in 2012 was 29.2% (2011: 30.0%). The corresponding figures for 2008, 2009 and 2010 were 32.9%, 32.0% and 30.2% respectively, showing the downward trend. The mix of the differing tax rates between the countries in which we make the operating profit can create small fluctuations in the overall rates.

Balance sheet and cash flow
Our balance sheet strengthened during 2012 with net assets increasing by 16% to £49.9m (2011: £43.0m). This was despite an increase of £0.8m in the deficit of the UK defined benefit pension fund during the year even though the Group contributed £18.0m to the fund during 2012 (2011: £17.0m).

BSI remained cash generative and ended 2012 with zero debt and a cash balance of £41.0m, an increase of £1.3m or 3% during the year. Cash generated from operations before additional contributions to the UK defined benefits pension scheme was £32.2m (2011: £29.7m).

Our purchases of property, plant and equipment and intangible assets (predominantly computer software) were £8.9m in 2012 (2011: £11.8m). In 2012 we continued to invest significantly into our information technology and communications (ITC) infrastructure, as well as more client facing programmes such as BSI Entropy Software™ and our Information Products Platform, the 'cloud computing' platform that can host the full range of our online products. However there was no repeat of the expenditure incurred in 2010 and 2011 resulting from the move to our new EMEA headquarters.

Debtor days improved slightly from 54.4 days in 2011 to 53.3 days in 2012. This Group average depends on the geographical distribution of our revenue and the customary terms of trade met in different countries. There is also, occasionally, a push from clients to receive longer payment terms. However there were no significant bad debts during 2012, with receivables written off amounting to only £0.8m (2011: £0.7m) and no significant change in the relative ageing of outstanding trade receivables.

Pensions
The Group's UK final salary scheme pension fund deficit increased slightly from £59.1m to £59.9m during 2012. The main factors behind this increase were a further contribution of £18.0m into the scheme and an increase in scheme assets, primarily due to market performance, of £5.2m, offset by a net interest cost of £2.0m and an increase in scheme liabilities of £22.0m.

The discount rate used when calculating the liability is determined by reference to market yields on high quality corporate bonds. The discount rate used was 4.5% in 2012 compared to 4.85% in 2011. This accounted for over £18.0m of the increase in the scheme liabilities. The remaining £4.0m was due to a decrease in the difference between RPI and CPI assumed in the calculation. This was 0.9 percentage points in 2012 (2011: 1.2 percentage points).

BSI seeks to be close to the midpoint in the range of possible assumptions in the valuation of the assets and liabilities of the pension fund and confirms this with its external auditors each year.

The Group remains committed to reducing the deficit and works closely with the Pension Trustee Board to do so. The last triennial valuation of the scheme took place with an effective date of 31 March 2010 and a schedule of contributions was agreed that was expected to eliminate the deficit by 31 December 2019. This schedule promised contributions of £10.0m during 2012 and another £20.0m during 2013. We paid in full the 2012 contributions and had prepaid £15.0m of the 2013 contributions by the end of 2012. This means that another £5.0m of contributions will be forthcoming before 31 December 2013 to remain in line with the schedule. The next triennial valuation will take place with an effective date of 31 March 2013 and a new schedule of contributions will be agreed with the Pension Trustee during 2014.

Treasury
A Banking Committee ensures that all treasury activities are conducted in accordance with the Group treasury policies maintained and updated by the Board. Treasury operations are subject to independent reviews and audits, both internal and external.

The principal aim of these policies is to manage and monitor the Group's funding requirements, optimize net interest cost after tax and manage financial risk arising from the international nature of the business of the Group, particularly in terms of interest rates and foreign exchange. Policy prohibits holding or issuing financial instruments for trading purposes so credit risk in this area is minimal.

The Group held cash of £41.0m, up 3% from £39.7m at the end of 2011, although this figure is distorted by a contribution to the pension fund of £10.0m not due until March 2013 and a further £5.0m, not due until December 2013, made before the end of the year for tax reasons. Although the Group is debt free, it recognizes the occasional need for external funding and held bank overdraft facilities of £4.4m, on an unsecured basis, at the end of 2012, although none were utilized. The Group maintains regular contact with its main banks and is confident of being able to secure debt facilities should these be required. Counterparty credit risk with banks exists but the Group considers this to be minimal.

The Group has significant operations outside the UK and so has exposure to currency fluctuations. Note 3 to the Consolidated financial statements shows the exposure that the Group would suffer should any of the major currencies in which it trades move by 10% against Sterling. If all currencies moved against Sterling in the same direction, the impact to operating profit would be around £0.7m.

Accounting policies
Details of the principal accounting policies used by the Group appear in Note 2 to the Consolidated financial statements.

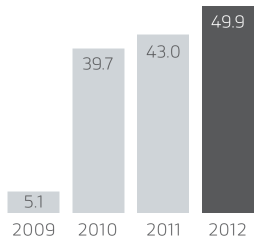
By order of the Board

Craig Smith FCCA
Group Finance Director
21 March 2013

Financial KPIs
continued

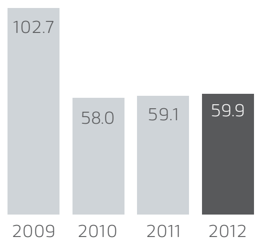
Net asset value £m

£49.9m
+16%



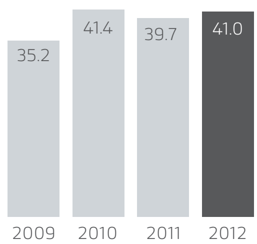
UK defined benefit pension fund deficit £m

£59.9m
+1%



Cash £m

£41.0m
+3%



Principal risks and uncertainties

Effective risk management

"We have a continual and dynamic process for identifying, evaluating and managing the risks in the business, based on ISO 31000."

Risk management

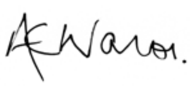
The Board of BSI understands that effective risk management is an inherent part of the business process. The identification, evaluation and mitigation of risk is integrated into key business processes from strategic planning to day-to-day performance management as well as into health, safety and environmental management.

We have a continual and dynamic process for identifying, evaluating and managing the risks in the business, based on ISO 31000 (Risk Management). Risks identified are logged on risk registers within all business streams, countries and regions. Above this sits the Group risk register.

Our management is accountable for managing the risks within their area of responsibility and for sharing information relating to these risks with their colleagues in the spirit of collaboration. Risk management is a standing item on all key management meetings and our Group Risk and Compliance team ensure that regular reviews are undertaken at all levels within the business. The Board receives and reviews a risk management report at every Board meeting. The Board also formally reviews the risk management process and health and safety issues every year with the Risk and Compliance team.

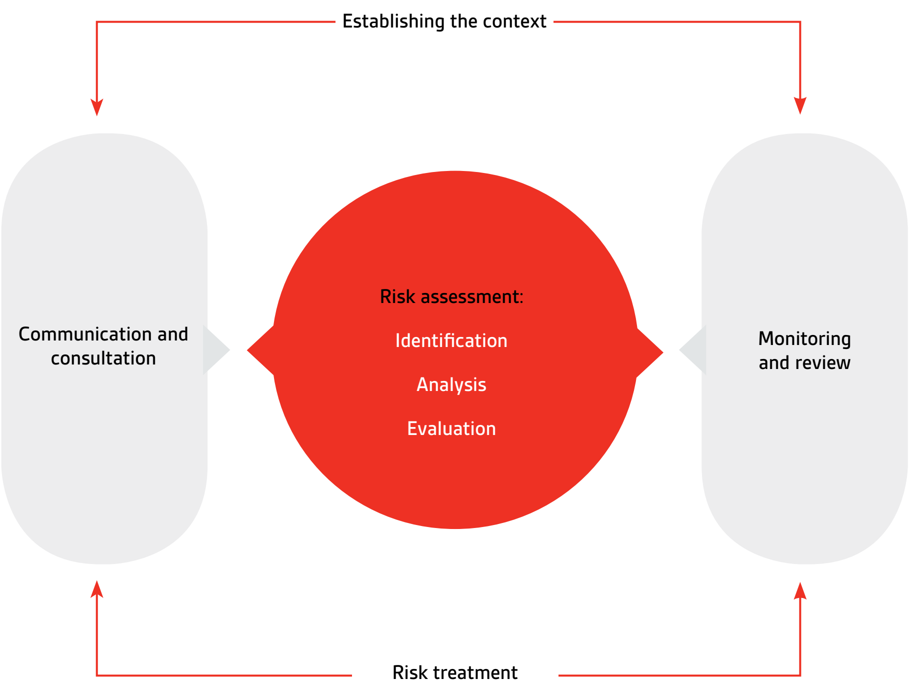
Insurance

The BSI Group maintains a global insurance programme covering all major insurable risks to the Group's business assets and operations worldwide. This insurance programme is regularly reviewed and new lines of cover are introduced as required.



Tony Wales
Company Secretary
and Director of Legal Affairs
21 March 2013

Risk management process



Type of risk	Risk description	Mitigating activities
Government regulatory intervention	Much of the work undertaken by BSI is in a regulated space or influenced by governments around the world and changes to government policy could affect our trading.	We continue our discussions with governments to ensure that our voice is heard during policy debates.
Macro-economic environment	The continuing challenging global economic environment means that the risk in the execution of strategic plans is more complex to manage with less certainty of success.	Our strategic plan takes into consideration the economic uncertainty and its financial targets are mindful of the external environment. Performance against budget is closely monitored. Our diverse business activities mean that there is a low concentration of risk.
Accreditation compliance	BSI's certification activities are accredited to ISO 17021 (Conformity Assessment), which includes accreditation compliance to ISO 9001 (Quality Management) for all BSI's offices worldwide. Failure to operate to those standards could lead to a withdrawal of accreditation licences.	A regulatory compliance framework is in place along with a compliance audit programme.
Brand and reputation	Failure to protect or maximize the core identity associated with BSI would result in deterioration of our reputation and potential loss of business.	We continue to reinforce our values, policies and processes, taking robust action where necessary to protect our brand and reputation. The launch of the new brand in 2012 has been well received by clients and brand enhancement remains a key part of our strategic plan.
UK pension fund	Increases in the ongoing deficit associated with the UK defined benefit pension scheme would adversely affect the strength of our balance sheet.	The scheme is closed to new entrants and future accruals and we hold regular meetings with the trustee to review the investment policy, our funding requirements and any opportunity to insure against this risk.
Competitor action	A major consolidation amongst competitors, a large new entrant to the market or other competitive activities may threaten our market position in our business streams or geographic regions.	We continue to monitor and analyse activity in our competitive landscape at local, regional and global levels, with responses put into action as appropriate. We continue to seek new opportunities in all aspects of our business.
Business continuity	Natural disasters, political, social and economic unrest, acts of terror or major pandemic events could jeopardize the markets in which we operate.	We have business continuity plans in place for all our locations. These are reviewed and updated regularly and are subject to periodic testing.
Financial and tax compliance	There is an ongoing risk in any organization of our size and complexity for irregularities to occur due to human error or fraud which could impact our financial results.	We have strong reporting lines in place throughout our organization, both regionally and functionally. In addition, we have Internal Audit and Group Risk and Compliance audit teams who regularly visit all locations. There is also an annual external audit of our financial results undertaken by PricewaterhouseCoopers LLP.
Health and safety	A risk to our business or reputation could develop if we do not actively monitor and maintain the health and safety of staff, contractors and other visitors to the Group's premises.	This is a vital and integral part of corporate governance and a prime responsibility of management at every level. BSI continues its compliance programmes for OHSAS 18001 (Occupational Health and Safety) in all operations worldwide.

Social responsibility

An integral part of best practice

"Through our Group Compliance Framework and Code of Business Ethics, we demonstrate a strong commitment towards embedding sustainable business practices in all areas of our organization."

Tom Gorrie
Chairman of the Social Responsibility Committee

We believe we can make a real difference in the world by helping to create a sustainable future for ourselves and our local communities through responsible business practices, positive stakeholder engagement and limiting our impact on the environment. With our corporate values of Integrity, Continual Improvement and Inclusivity we operate ethically and sustainably. Through our Group Compliance Framework and Code of Business Ethics, we demonstrate a strong commitment towards embedding sustainable business practices in all areas of our organization.

Our strategy

Our strategy is shaped by our Social Responsibility Committee. The Committee provides governance and oversight to the Group's Social Responsibility strategy, which is based on ISO 26000 (Guidance on Social Responsibility), in alignment with the overall business strategy. The Committee comprises three Non-executive Directors, Tom Gorrie, who acts as Chairman, Sir David Brown and John Regazzi, as well as Howard Kerr, the Chief Executive. Pat Chapman-Pincher, advisor to the Board, was appointed to the Committee in May 2012. To support the Committee, a Global Social Responsibility Team has been established to work with regional social responsibility champions and locally appointed representatives.

Our business

We believe we can make a valuable contribution to society by striving for excellence in our day-to-day business. BSI's business activity allows us to shape the way the world handles social responsibility issues and is therefore the most impactful way we can contribute towards social responsibility. Our global network of trusted sustainability and social responsibility experts allows us to leverage our knowledge, services and relationships in areas where we can make a real difference. We work with governments, businesses and consumers to develop innovative standards that help clients to implement a sound social responsibility framework. During 2012, we collaborated with, amongst others, the London 2012 Olympics Organising Committee (LOCOG), the World Wildlife Fund and the UK Government's Green Deal to help them make a difference in the world.

We are proud to have published the world's first environmental management system standard which became the template for ISO 14001 (Environmental Management). This helps organizations to minimize the negative effect their operations have on the environment. BSI has played a pivotal role in ensuring that this standard is updated in accordance with the latest environmental challenges.

Evolving from one of our national standards, ISO 20121 (Sustainable Events Management) was developed to help the events industry operate more sustainably. LOCOG required its suppliers and venues to be compliant to this standard in order to ensure that London 2012 was the most sustainable Olympic Games possible.

BSI has been commissioned by the UK Government's Department of Energy and Climate Change (DECC) to manage the development of two new standards for energy efficiency: PAS 2030 (Improving the Energy Efficiency of Existing Buildings) and PAS 2031 (Certification of Energy Efficiency Measure Installation Services).

We also help organizations implement management systems to ensure continual improvement in the area of social responsibility, alongside training to help them embed sustainability and ethical business practices.

Our people

The most important asset in our business is our people. We are proud to have been recognized recently as an 'Investors in People' (IiP) company in the UK, which reflects best practice in the way we manage, lead, develop and involve our employees in decision making. We are committed to excellence in the development and success of our people, so we continually improve our internal learning programmes and performance management systems. We also have wellbeing programmes operating globally, which include discounted gym memberships, running clubs, social clubs and well being advice.

"We recognize the importance of good environmental stewardship and aim to minimize our impact on the environment."

BSI takes a values-based approach for developing our people. We ensure our corporate values of Integrity, Continual Improvement and Inclusivity guide us in everything we do. Our Compliance Framework underpins all our undertakings and includes policies such as our Code of Business Ethics and Anti-Bribery and Corruption. To embed this values-based approach we provide training and ensure the Compliance Framework is covered as part of our Risk and Compliance audit programme. We also have a confidential whistle-blowing process that allows our employees and other stakeholders to report any behaviour they feel falls short of the appropriate standard.

Our environment

We recognize the importance of good environmental stewardship and aim to minimize our impact on the environment. We have a Group objective to comply with ISO 14001 (Environmental Management) in all of our major operations worldwide and, while accreditation rules prevent us from being certified ourselves, we operate a compliance audit programme. Across the Group, we have many local initiatives including energy saving, waste minimization and recycling.

We are in the process of understanding our global footprint so that we can work towards mitigating our impact in the future and aim to put in place behavioural change programmes for our employees.

Our community

We understand the importance of giving back to our local communities and encourage our employees to play a positive role in their community.

Each of our local offices contributes towards our social responsibility initiatives in their own way. Our people make contributions by supporting charities, giving their time and expertise through a range of fundraising, volunteering and pro bono activities. For example, in the UK our alliance with Paper Planet ensures that we recycle waste paper and plant new trees. Our people support charities by raising funds for Race for Life, Children in Need, Macmillan Cancer Support, Oxfam Collects at Work and a local hospice, among many others. We also take pride in the fact that some of our employees were able to directly contribute to the 2012 Olympics by acting as games makers. In Japan, we support the ECOCAP movement which promotes the themes of resource recycling, reduction of carbon dioxide emissions and providing vaccines to children in developing countries. BSI Japan also supports the Tie for Change charity which provides employment opportunities for disadvantaged people. In Indonesia, our people have supported a local orphanage by donating clothing and food. In EMEA, our people have supported the charity Labour of Love which improves the lives of labourers who are stuck in terrible living conditions of labour camps by volunteering and donating food and hygiene essentials to help improve the living conditions. In the US, we supported the Red Cross Hurricane Sandy Appeal through our donations. In London, we are providing free office space to the music charity Musequality, which supports education projects for disadvantaged children in developing countries.

Our matched giving programme encourages our employees to engage and boost fund raising by supplementing their achievements. Our 'Give as You Earn' scheme in the UK encourages our employees to contribute regularly on a tax-free basis to the charities of their choice.

At BSI we recognize that we are in a very fortunate position as our business allows us to help shape the way the world handles social responsibility issues so that we can impact society not only through our own actions but in helping others make excellence a habit too.

Thomas M. Gorrie

Dr Tom Gorrie
Chairman of the Social Responsibility Committee
21 March 2013

Case study: Olympics

Olympic venue strengthens reputation as a sustainable centre of excellence

LOCOG approached BSI to shape a standard for sustainable event management. Developed collaboratively with industry experts it quickly became the world's first global standard in this area, enabling LOCOG to deliver a truly sustainable London 2012.

BSI solutions

BSI's standard enabled LOCOG to demonstrate real commitment to sustainability. BSI certified venues including Weymouth and Portland National Sailing Academy and Earls Court, who both achieved cost savings, new business opportunities and improved reputation as a result of independent assessment.

Why choose BSI

"Weymouth and Portland National Sailing Academy is a world class facility endeavouring to operate in the very best way possible. Our association with BSI and this global standard will help attract more corporate functions and sailing regattas from those seeking to integrate sustainability into their business."

John Tweed
Chief Executive
Weymouth and Portland National Sailing Academy

Board of Directors

1. Sir David Brown
Chairman *(Chairman N, SR)*

Sir David Brown joined the Board as Non-executive Director in May 2010 and became Chairman in March 2012. He was Chairman of Motorola Ltd from 1997 to 2008 and was also Motorola's Global Governance Advisor. A Fellow of the Royal Academy of Engineering, he was President of the Federation of the Electronics Industry and President of the Institution of Electrical Engineers. He was the first President of the Chartered Quality Institute, during which time it secured its Royal Charter status. He is Chairman of DRS Data & Research Services PLC and non-executive director of two other companies.

2. Howard Kerr
Chief Executive *(N, SR)*

Howard Kerr was appointed to the Board in November 2008 and assumed the position of Chief Executive in January 2009. After a period at Associated British Ports his early career was spent in business development roles in the fields of shipping, logistics, and B2B marketing with Inchcape PLC in the UK, Japan, China and the Middle East. Subsequently he joined SHV Holdings NV where he held general management positions in the energy division, including Chief Executive of Calor Group Ltd., UK and Senior Vice President on the International Management Board of SHV Gas in the Netherlands.

3. Craig Smith FCCA
Group Finance Director

Craig Smith joined the Board as Group Finance Director in August 2011. A Chartered Certified Accountant, he began his career in 1985 with Coats Viyella PLC, undertaking finance roles in Australia, Spain, the UK, Morocco, Hungary and Finland. On his return to the UK in 1997 he was European Finance Director for two large American corporations in the product identification and printing ink industries. Immediately prior to joining BSI he was Group Finance Director of two UK listed companies, Huntleigh Technology PLC from 2003 to 2007 and Management Consulting Group PLC from 2007 onwards.

4. Dr Scott Steedman CBE
Director of Standards *(SP)*

Scott Steedman joined the Group in January 2012 from BRE Global and was appointed to the Board in October 2012. An engineer by background, he spent 20 years working in industry for consulting and contracting companies on major infrastructure and building projects around the world. Elected Vice-president Policy for the European Committee for Standardization (CEN) in November 2012, he is a former Vice-president of the Royal Academy of Engineering and of the Institution of Civil Engineers. He is Editor-in-Chief of Ingenia, the flagship magazine of the Royal Academy of Engineering and Non-executive Director of the Port of London Authority.

5. Anthony Lea
Senior Non-executive Director
(Chairman A, N, R)

Anthony Lea joined the Board as Non-executive Director in July 2007 and became Senior Non-executive Director in May 2008. Previously he served as a board member of the Anglo American Group and as Finance Director of Anglo American PLC until his retirement in 2005. He has extensive international operational experience in the UK, South Africa and North America. He is Chairman of Blackrock World Mining Trust PLC and the Emerging Africa Infrastructure Fund. In 2008 he was appointed Non-executive Director of the Office of Fair Trading and is also a Trustee of the Royal Air Force Benevolent Fund.

6. Keith Clarke CBE
Non-executive Director *(A, N, Chairman R)*

Keith Clarke joined the Board as Non-executive Director in December 2010 and was formerly Chief Executive of WS Atkins PLC. A qualified architect, he previously held the roles of Chief Executive of Skanska UK and Chief Executive, Construction at Kvaerner Construction Group and, prior to these, management positions at Trafalgar House, Olympia and York and the New York City Public Development Corporation. He has been Chairman of the Construction Industry Council and its Constructing Excellence High Level Steering Group. He is a visiting professor and advisory board member of Imperial College, Chairman of Forum for the Future, a Non-Executive Director of Engineering UK and an Advisory Board Member of Infrastructure UK.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A Audit Committee
N Nominations Committee
R Remuneration Committee
SP Standards Policy and Strategy Committee
SR Social Responsibility Committee

7. Dr Tom Gorrie
Non-executive Director *(N, Chairman SR)*

Tom Gorrie joined the Board as Non-executive Director in September 2009. He is a US citizen and resident and held numerous senior international positions at Johnson & Johnson during his 35 years with the corporation. Most recently he served as Corporate Vice President, Government Affairs and Policy and as a Corporate Officer until his retirement in 2008. He is currently a Board Trustee of the Robert Wood Johnson Foundation, New Jersey, a Trustee of Duke University, North Carolina, and Chair of their Health System, and an adjunct professor of the Rutgers University Business School, New Jersey.

8. Dr John Regazzi
Non-executive Director *(N, R, SR)*

John Regazzi joined the Board in July 2006. He is a US citizen and resident and former Managing Director of Market Development at Elsevier, Chief Executive of Elsevier Inc., and Global Managing Director of Elsevier Electronic Publishing. He was also President and Chief Executive of Engineering Information Inc. He is Professor and Dean Emeritus of the College of Information and Computer Science of Long Island University. He is also Chairman of the Board of Directors of LawLogix Group Inc. and Operating Partner, Akoya Capital Partners, Vice President of the Engineering Information Foundation and Chairman of the US Department of Commerce National Technology Information Service Advisory Board.

9. Lucinda Riches
Non-executive Director *(A, N, R, SP)*

Lucinda Riches was appointed advisor to the Board in May 2011 and Non-executive Director in May 2012. She was an investment banker for over 20 years at SG Warburg and its successor firms, ultimately as Global Head of Equity Capital Markets and a Board Member at UBS Investment Bank. She is Non-executive Director of UK Financial Investments Limited, established in 2008 to manage the UK Government's investments in financial institutions. She is also Non-executive Director of the Diverse Income Trust PLC, the Graphite Enterprise Trust PLC, on the Partnership Board of SJ Berwin LLP, and a Trustee of Sue Ryder.

10. Pat Chapman-Pincher
Board Advisor *(A, R, SR)*

Pat Chapman-Pincher was appointed advisor to the Board in May 2011. She has board level experience in both international public and private technology companies. She also has extensive knowledge in new company start-ups and mergers and acquisitions. She is Senior Non-executive Director of Pace PLC, Chairman of the Cavell Group, and a member of the Advisory Board of the Bradford School of Management. She also works as a Chief Executive mentor with Merryck Mentoring.

11. Tony Wales
Company Secretary

Tony Wales joined BSI as Director of Legal Affairs and Company Secretary in January 2010. A qualified solicitor with significant international experience, he was a partner in a City law firm from 1986 to 1994 and practised commercial law in London, Hong Kong and Prague. Moving in-house in 1994 he was general counsel at The Economist Group where he became involved in online publishing and digital media. In 2002 he became general counsel at AOL Europe and, from 2007, at AOL International where he led worldwide legal affairs outside the USA. He is a past president of The Association of Corporate Counsel in Europe.

Group executive


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The Group executive comprises:

1. Howard Kerr
Chief Executive

2. Craig Smith
Group Finance Director

3. Scott Steedman
Director of Standards

4. Tony Wales
Director of Legal Affairs

5. Jim Newell
Group Human Resources Director

6. David Brown
Director of Corporate Development

7. Mark Basham
Managing Director, BSI EMEA

8. Todd VanderVen
President, BSI Americas

9. David Horlock
Managing Director, BSI Asia Pacific

Operational executive

The Operational executive comprises the Group executive and:

10. Steve Cargill
Chief Information Officer

11. Maureen Sumner Smith
Global Marketing Director

12. Shirley Bailey-Wood
Director of Publishing

13. Gary Fenton
Director of Assurance

14. Gary Slack
Director of Medical Technology

15. Richard Keown
Director of Training

16. Bill McMoil
Senior Vice-president,
Governance, Risk and Compliance

17. Dan Purtell
Senior Vice-president,
Supply Chain Solutions

Corporate governance report

Introduction from the Chairman

As a Royal Charter Company with no shareholders and therefore no Stock Exchange listing, BSI is not required to apply the UK Corporate Governance Code. However, consistent with our unique status as the UK National Standards Body and our commitment to our members, we nevertheless apply the principles of the Code where applicable and, in doing so, have established internal governance processes which reflect best practice in business today.

The ultimate accountability for the governance of BSI lies with our widely experienced and seasoned Board of Directors, which has a majority of Non-executive Directors. The Board is supported by Audit, Remuneration, Nominations and Social Responsibility Committees which are chaired by, and primarily consist of, Non-executive Directors. These formal committees are complemented by the Standards Policy and Strategy Committee, which does invaluable work in gathering and distilling the views of those interested in British Standards and advising the Board.

Underpinning this governance framework, our structure of internal controls and financial management and, indeed, everything that every BSI employee does, wherever they do it, is the BSI Code of Business Ethics. It sets the ethical values and high standards of integrity that apply to every aspect of the way that we do business.

Sir David Brown
Chairman

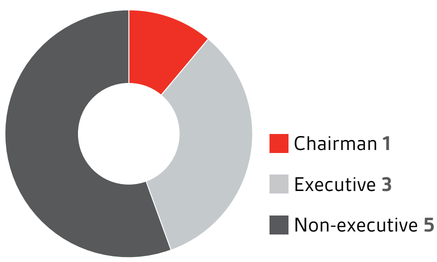
Governance framework

The Board of The British Standards Institution is committed to the highest standards of corporate governance which it considers fundamental to the success of the business. The British Standards Institution is governed by its Royal Charter and Bye-laws. As a Royal Charter Company BSI is not subject to the oversight by investors as is found in joint-stock companies but nevertheless has complied throughout the accounting period with the FRC UK Corporate Governance Code 2010 ('the Code') wherever relevant and practical. In particular, the provisions of the Code relating to shareholders are not applicable to the Company (E.1 of the Code).

The Board

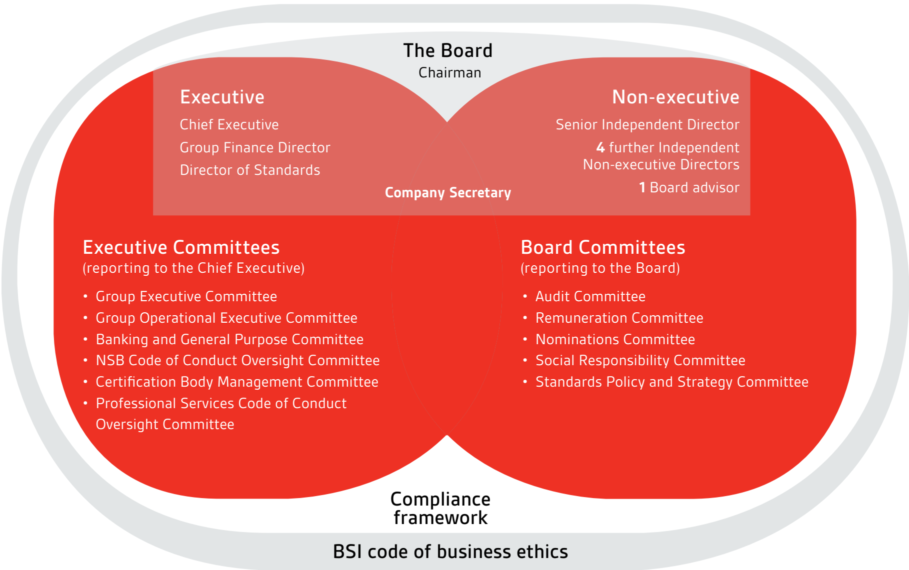
The Board is the governing body of the Company and is collectively responsible for the success of the business. It provides leadership of the organization within a framework of prudent and effective controls that enable risk to be assessed and managed. The Board operates within the terms of a schedule of matters that are reserved for its decision; other decisions are delegated to management. The Board has ultimate responsibility for ensuring compliance with the Company's Royal Charter and Bye-laws, its strategy and management, organization and structure, financial reporting and controls, internal controls, risk management, approval

Balance of Executive and Non-executive Directors



“The Board provides leadership of the organization within a framework of effective controls.”

Board management and corporate structure



of significant contracts, determination of corporate policies, consideration of significant matters relating to the raising of finance, acquisitions and disposals and corporate governance matters.

In 2012 the Board comprised the Chairman, Sir David Brown (formerly Deputy Chairman) who took over the role on 31 March 2012 from Sir David John KCMG who retired from the Board on 30 March 2012; the Chief Executive, Howard Kerr; two further Executive Directors, responsible for finance and standards; and five independent Non-executive Directors.

Scott Steedman joined the Board and was appointed Director of Standards on 1 October 2012 following the retirement of Mike Low from the Board on 30 September 2012. During 2011, Pat Chapman-Pincher and Lucinda Riches were appointed as advisors to contribute additional expertise to the proceedings of the Board and its committees. On 17 May 2012 Lucinda Riches was appointed as a Non-executive Director.

The current Directors of the Company and their roles are given in their biographical details on pages 26 and 27.

Read the Directors’ biographies and their roles on **pages 26 and 27**.

There is a clear division of responsibilities at the head of the organization which have been set out in writing and approved by the Board. The Chairman is responsible for the leadership of the Board, ensuring that the Directors receive the information they require for their roles. He also facilitates the contribution of the Non-executive Directors as a key part of the Board including their role in constructively challenging and helping to develop proposals on strategy. The Chief Executive is responsible for the day-to-day management of the business and the leadership of an effective executive team to deliver the business objectives of the organization.

The Board has established formal procedures to ensure that the disclosure and authorization of any actual or potential conflicts of interest are carried out correctly.

Division of responsibilities

Chairman – Sir David Brown

Responsible for the leadership of the Board, ensuring that the Directors receive the information they require for their roles and facilitating the contribution of the Non-executive Directors as a key part of the Board.

Chief Executive – Howard Kerr

Responsible for the day-to-day management of the business and the leadership of an effective executive team to deliver the business objectives of the organization.

Corporate governance report continued

"The Board continues to maintain an appropriate balance of skills, knowledge and experience."

Board balance and independence

The Board continues to maintain an appropriate balance of skills, knowledge and experience.

The Board has determined that the Chairman was independent on his appointment and that all of the Non-executive Directors are considered independent for the purposes of the Code. The British Standards Institution's Bye-laws require that the total number of Executive Directors may not exceed the total number of Non-executive Directors. Accordingly, at least half the Board comprises Non-executive Directors in accordance with the Code.

During the year the Chairman met with the Non-executive Directors without the Executive Directors being present. Anthony Lea is the Senior Independent Director and met with the Non-executive Directors without the Chairman being present.

Attendance	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings:	7	3	3	3
Sir David Brown	7/7	1*	3*	3/3
Sir David John	2/2	1/1	1/1	1/1
Howard Kerr	7/7	3*	3*	3/3
Craig Smith	7/7	3*	—	—
Mike Low	6/6	—	—	—
Scott Steedman	5+ 1/1	—	—	—
Keith Clarke	7/7	3/3	3/3	3/3
Tom Gorrie	7/7	—	2*	3/3
Anthony Lea	7/7	3/3	3/3	3/3
John Regazzi	6/7	—	2/3	2/3
Lucinda Riches	2+ 5/5	3/3	2/2	2/2
Pat Chapman-Pincher	7*	2/3	3/3	3*

* Attended by invitation

\+ Attended by invitation, prior to joining the Board

Rotation of Directors

In accordance with the Company's Bye-laws, Directors are required to submit themselves for re-election at the next AGM following their appointment by the Board. Additionally one-third, rounded down, of the other Directors are required to retire by rotation and stand for re-election at each AGM. The Bye-laws also require the Chairman to be elected annually by the Board.

Board meetings

There were seven meetings of the Board during the year ended 31 December 2012. The attendance of Directors and advisors at Board as well as Audit, Remuneration and Nominations Committee meetings is indicated in the table above.

The Directors are supplied with the best available information in a form and of a quality to support them in the decision-making process. The Board is regularly briefed on financial performance as well as risks, uncertainties and future prospects.

Evaluation, training and support

An evaluation process is carried out annually to support continuing improvement in Board effectiveness. A formal Board evaluation process was carried out during the year and covered an extensive range of topics including the competence and effectiveness of the Board, its committees and individual Directors. The exercise was constructive and, where changes or improvements were identified, they are being implemented. The intention is to have this process led by an external facilitator at regular intervals and this was most recently done in 2011.

Training in matters relevant to their role on the Board is available to all Directors. When appointed, new Directors are provided with a full and tailored induction in order to introduce them to the business and management of the Company. The Board is supported by the Company Secretary who is available to give ongoing advice to all Directors on Board procedures and corporate governance. There is a procedure for Directors to have access, if required, to independent professional advice, paid for by the Company.

Board committees

The Board delegates certain of its responsibilities to standing committees. These committees have written terms of reference that deal with their authorities and duties which are periodically reviewed. The Non-executive Directors play an important governance role on these committees. The Board considers that the membership of the Audit Committee, Remuneration Committee and Nominations Committee and their terms of reference are in line with the Code's recommendations and best practice. The committees are:

Audit Committee

The Audit Committee is responsible for, among other things, recommending the appointment of auditors, reviewing the annual financial results, considering matters raised by the auditors and overseeing the internal control system operated by the BSI Group.

A report by the Audit Committee, including details of its membership, is set out on page 35.

Remuneration Committee

The Remuneration Committee is responsible for reviewing the terms and conditions of employment of Executive Directors and the senior management team including the provision of incentives and performance related benefits.

The Remuneration report, which includes details of the Remuneration Committee's membership, is set out on **pages 36 to 41**.

Nominations Committee

The Nominations Committee is responsible for the selecting and recommending the appointment of all Directors to the Board.

A report by the Nominations Committee, including details of its membership, is set out on **page 42**.

Standards Policy and Strategy Committee

The principal objective of the Standards Policy and Strategy Committee is to bring together the views of those interested in British Standards and standardization activities in order to develop the strategic policy of the organization in the national, European and international standards arenas. The Committee is chaired by Mike Nichols and its members include Howard Kerr, Chief Executive, as well as Scott Steedman, Director of Standards.

Scott Steedman, Director of Standards, gives details of standards activities in his report on **pages 15 to 17**.

Social Responsibility Committee

The Social Responsibility Committee is responsible for enhancing the attention of the BSI Group to social responsibility and for driving an implementation programme following the guidelines of ISO 26000.

The Social Responsibility report, which includes details of the Committee's membership, is set out on **pages 24 and 25**.

Internal control

The BSI Group has a robust and effective system of internal control supported by review and assurance processes.

The Board recognizes that it is responsible for the system of internal controls in the BSI Group and takes direct responsibility for reviewing and maintaining the effectiveness of those controls which are considered at each Board meeting as an integral part of the meeting's agenda. No significant failings or weaknesses have been identified.

The Group's internal control system is set out in a comprehensive Group Compliance Framework, to which all BSI employees have access on the organization's intranet. The Group Compliance Framework is designed to provide a level of assurance that adequate controls are applied and is regularly considered by the Board and updated when appropriate.

The BSI Group has established a Risk and Compliance function which monitors compliance with the Group Compliance Framework on behalf of the Board. The Risk and Compliance function provides a risk report to each scheduled meeting of the Board. This assists the Board in its review of significant business risks throughout the year as well as its consideration of the scope and effectiveness of the organization's system of internal control. This review involves the identification of actual or potential risks to the BSI Group which may have an impact on its objectives, together with controls and reporting procedures designed to address and mitigate those risks. These controls are reviewed, applied and updated whenever appropriate throughout the year.

The report on principal risks and uncertainties is set out on **pages 22 and 23**.

The process of requiring senior levels of management to provide an annual Letter of Assurance provides formal certification that governance and compliance matters have been properly addressed.

As part of the internal control environment there is a comprehensive financial management, financial control and governance framework. Quarterly financial and operational reviews are undertaken throughout the BSI Group by the Chief Executive and Group Finance Director and the Board reviews a full financial report and commentary every month. The BSI Group's internal audit function is responsible for auditing and monitoring the application of financial procedures and practices throughout the BSI Group. The Head of Internal Audit reports functionally to the Group Finance Director but has full and open access to BSI's Audit Committee.

The BSI Group's internal control system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. There is an ongoing process, established in accordance with the Turnbull Guidance 2005, for identifying, evaluating and managing the significant risks faced by the organization, which has been in place during the year under review and up to the date of approval of this Annual Report and Financial Statements.

Underpinning the formal internal control system is the BSI Code of Business Ethics, which sets out the ethical values and high standards of integrity that BSI aims to put at the forefront of all its activities.

By Order of the Board

Sir David Brown
Chairman
21 March 2013

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations including the Royal Charter and Bye-laws of The British Standards Institution.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the BSI Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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 BSI Group and the Company and of the profit or loss of the BSI Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the BSI Group and parent company financial statements respectively; 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 and the Royal Charter and Bye-laws of The British Standards Institution. They are also responsible for safeguarding the assets of the Company and the BSI Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors
In accordance with Section 418 of the Companies Act 2006, in the case of each Director in office at the date the Directors' report is approved, it is confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board

Tony Wales
Company Secretary
21 March 2013

Report of the Audit Committee

The Audit Committee ('the Committee') is established by the Board under terms of reference that were most recently updated in March 2013. A copy of the Committee's terms of reference is available on the BSI Group website.

Membership

During the year ended 31 December 2012 the Committee comprised:

Anthony Lea
Chairman

Pat Chapman-Pincher

Keith Clarke

Sir David John KCMG
(until 30 March 2012)

Lucinda Riches

Anthony Lea was previously Finance Director at Anglo American PLC, is a Trustee of the RAF Benevolent Fund, and Chairman of its Finance Committee, and is also Chairman of the Audit Committee at the Office of Fair Trading (OFT). Lucinda Riches was an investment banker for over 20 years at SG Warburg and successor firms and is a Non-executive Director of UK Financial Investments Limited. Both are considered to have recent and relevant financial experience.

Meetings

The Committee met three times in the year ended 31 December 2012. When appropriate, the Chief Executive, Group Finance Director, Group Financial Controller and Head of Internal Audit along with the external auditors are invited by the Committee to attend its meetings. The Committee is able to consider items of business without other parties being present.

Attendance	Audit Committee
Number of meetings:	3
Anthony Lea (Chairman)	3/3
Sir David John	1/1
Keith Clarke	3/3
Pat Chapman-Pincher	2/3
Lucinda Riches	3/3

Main activities of the Committee

The role of the Committee includes:

- monitoring the integrity of the financial statements of the Company and the BSI Group including consideration of the appropriateness of accounting policies and material assumptions and estimates adopted by management;
- meeting with the auditors, in advance of the annual audit, to consider and discuss the nature and scope of the audit;
- monitoring the effectiveness of the internal audit function;
- reviewing the 'whistle-blowing' procedure;
- overseeing the relationship with the external auditors, including making recommendations for the appointment, re-appointment and removal of the external auditors; and
- meeting with the auditors without Executive Directors present.

The Committee focuses its agenda on financial reporting risk, reviewing the continuing validity of critical accounting judgments and estimates and considers risk in its broader sense to ensure that appropriate financial controls are in place. The Committee reviews the annual internal audit plan to ensure appropriate focus and resource. The Committee provides support to the Group Finance Director and Group Finance team.

Auditors

The Committee reviews the level of fees and type of non-audit work carried out by the auditors. It was considered in the best interest of the Company to retain PricewaterhouseCoopers LLP for certain non-audit work due to their relevant expertise and knowledge of the Company.

The Committee further safeguards the auditors' objectivity by reviewing the measures they take to maintain their independence and manage any conflicts of interest. PricewaterhouseCoopers LLP have been the BSI Group's auditors for more than ten years.

There are no contractual obligations restricting BSI's choice of auditors. The Audit Committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness. However, in accordance with best practice, the Committee has decided to put the Company's external audit out to tender. A thorough review process is being undertaken, with three firms and the existing auditors tendering for the role, and the matter is being given consideration in consultation with the Company's management. The Committee will make a recommendation to the Board and, based on its decision, a resolution to appoint auditors for the financial year ending 31 December 2013 will be put to members at the forthcoming AGM.

By Order of the Board

Anthony Lea
Chairman of the Audit Committee
21 March 2012

Remuneration report

Introduction by Keith Clarke, Chairman of the Remuneration Committee

I am pleased to present the Remuneration Report for the year ended 31 December 2012. The Company supports greater transparency in remuneration reporting and this report reflects best practice to the extent practical for a company of BSI's type and size.

The Remuneration Committee fully recognizes that the quality of the Group's management is the key to the achievement of the Group's strategy. Accordingly, BSI's remuneration policy is based upon the need to attract, retain and motivate executives with the necessary drive, leadership and management skills, in a competitive international market for such individuals, while incentivizing them to deliver to challenging targets.

2012 Remuneration

Despite the challenging economic climate during 2012, the Company continued on its trajectory of growth. The results achieved are a testament to the calibre of the Group's leadership and to the hard work and commitment of its employees. For the year ended 31 December 2012 revenue increased to £254.6m from £244.9m in 2011, underlying operating profit was £32.0m for 2012, up 11.5% from £28.7m in 2011. Overall expenditure on pay in 2012 was £113.6m, a decrease of 1.6% over the previous year (2011: £115.4m).

Base salary for Executive Directors was set in 2011 and increased from April 2012 by between 2% and 2.5%. The average salary increase for UK employees in March 2012 overall was 2.4% (2011: 2.9%) and the increase in RPI in March 2012 was 3.6%. The company achieved performance that met the Executive Directors' bonus triggers and provided annual bonus payments of between 41.4% and 51% of basic salary. Long Term Incentive Plan ('LTIP') awards were based on operating profit above a threshold and no awards were provided under the plan in 2012. Full details of 2012 Executive and Non-executive Directors' remuneration are set out on the following pages 37 and 38.

Remuneration policy

The Committee determined, with support from external research and advice, to change the targets in the annual bonus scheme for 2013 to include revenue growth alongside the existing targets of operating profit and cash. Similarly, additional LTIP targets were introduced to include revenue growth as a measure alongside operating profit. There were no other significant changes to remuneration policy during the year. The remuneration policy effective from 1 January 2012 is set out in full on pages 39 to 41.

Keith Clarke CBE
Chairman of the Remuneration Committee

The Remuneration Committee ('the Committee') is established by the Board under terms of reference that were most recently updated in July 2011. A copy of the Committee's terms of reference is available on the BSI Group website.

Membership

During the year ended 31 December 2012 the Committee comprised:

Keith Clarke
Chairman

Pat Chapman-Pincher

Anthony Lea

Sir David John KCMG
(until 30 March 2012)

John Regazzi

Lucinda Riches
(from 17 May 2012)

Meetings and advice

The Committee met three times in 2012 and considered, among other things, the incoming Chairman's remuneration, changes to annual bonus and LTIP targets and management incentive awards. When appropriate, the Chairman, the Chief Executive and the Group Human Resources Director are invited by the Committee to attend its meetings. Directors do not attend meetings where their own remuneration is under consideration.

The Committee has access to specialist advice from executive reward consultants. When required, advisors are appointed, following a review of comparable firms, for specific work. During 2012, the Committee reviewed the performance framework for the annual bonus and LTIP and, as part of that process, requested Deloitte LLP in London to undertake a strategic analysis of current trends in incentive structure.

Following its review, the Committee determined that it was appropriate to introduce revenue as a key performance measure in both incentive arrangements in order to reflect BSI's strategy and focus on growth. For their strategic analysis and their advice on Non-executive Director fees, a total fee of £29,650 was payable to Deloitte in respect of 2012, based on their time spent.

2012 Remuneration

							Variable pay receivable for 2012					
	Salaries and fees		Benefits		Pension benefits[1]		Bonus		LTIP		Total	
	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011[2] £'000	Year ended 31 Dec 2012 £'000	Year ended 31 Dec 2011 £'000
Executives												
Howard Kerr	356.1[3]	341.8	25.1	22.3	26.7	28.6	168.0	187.5	—	212.2	575.9	792.4
Craig Smith[4]	254.2	100.9	18.0	0.9	38.1	12.5	107.1	48.5	—	—	417.4	162.8
Scott Steedman[5]	178.3	—	13.5	—	25.5	—	60.5	—	—	—	277.8	—
Mike Low[6]	94.6[7]	245.1	13.6	9.0	—	—	40.8	85.9	—	116.1	149.0	456.1
	883.2	687.8	70.2	32.2	90.3	41.1	376.4	321.9	—	328.3	1,420.1	1,411.3
Non-executives												
Sir David Brown	129.5	34.6	—	—	—	—	—	—	—	—	129.5	34.6
Keith Clarke	40.0	36.7	—	—	—	—	—	—	—	—	40.0	36.7
Tom Gorrie	40.0	37.4	—	—	—	—	—	—	—	—	40.0	37.4
Sir David John KCMG[8]	36.2	145.0	—	—	—	—	—	—	—	—	36.2	145.0
Anthony Lea	40.0	39.1	—	—	—	—	—	—	—	—	40.0	39.1
John Regazzi	35.0	31.7	—	—	—	—	—	—	—	—	35.0	31.7
Lucinda Riches[9]	21.7	—	—	—	—	—	—	—	—	—	21.7	—
Advisors												
Pat Chapman-Pincher	35.0	21.6	—	—	—	—	—	—	—	—	35.0	21.6
Lucinda Riches[10]	13.3	21.6	—	—	—	—	—	—	—	—	13.3	21.6
	390.7	367.7	—	—	—	—	—	—	—	—	390.7	367.7
Total	1,273.9	1,055.5	70.2	32.2	90.3	41.1	376.4	321.9	—	328.3	1,810.8	1,779.0

(1) Contributions made by the Company outside of salary sacrifice arrangements
(2) Restated as explained overleaf
(3) Salary includes £27,756 (2011: £21,514) supplement in lieu of part pension contribution
(4) Appointed as a director on 15 August 2011
(5) Appointed as a director on 1 October 2012. Of Scott Steedman's total remuneration of £277,800, £195,900 relates to remuneration in his capacity as Director of Standards (Designate), prior to his appointment to the Board
(6) Retired as a director on 30 September 2012
(7) Salary includes £nil (2011: £34,187) supplement in lieu of pension contribution
(8) Retired as a director on 30 March 2012
(9) Appointed as a director on 17 May 2012
(10) Ceased to be an advisor on appointment as a director on 17 May 2012

"The Committee has access to specialist advice from executive reward consultants."

Meeting attendance

Attendance	Remuneration Committee
Number of meetings:	3
Keith Clarke (Chairman)	3/3
Sir David John	1/1
Anthony Lea	3/3
John Regazzi	2/3
Pat Chapman-Pincher	3/3
Lucinda Riches	2/2

2012 Remuneration

Salaries and fees shown on the previous page are before any reduction in respect of salary sacrificed pension contributions made by the Company. None of the Directors waived emoluments in respect of the year ended 31 December 2012 (2011: £nil).

LTIP amounts are included in directors' remuneration in the year in which they vest. The 2011 LTIP comparatives have been restated as they were disclosed on a 'payment made' basis in the Annual Report 2011 and therefore related to the 2010 financial year (Howard Kerr, Craig Smith and Scott Steedman: £nil; Mike Low: £95,000).

In addition, comparatives for 2011 have been restated to exclude a former director.

Variable pay 2012

Annual bonus for 2012

For 2012, annual bonuses were awarded by the Committee to each Executive Director on a predetermined scale depending upon the achievement of certain targets. The 2012 annual bonuses were based i) 50% on Group 'management operating profit', defined as 'underlying operating profit adjusted for items considered by the Remuneration Committee to be beyond the control of management'; ii) 20% on Group cash at bank; and iii) 30% on personal objectives monitored through the Group-wide Performance Development Review process. The threshold was the achievement of 90% of both Group 'management operating profit' and cash targets. The actual Group 'management operating profit' for 2012 was 101% of target and cash at bank was above target. Accordingly, the following annual bonuses were paid out in respect of 2012:

2012	On target award based on basic salary	Actual award based on basic salary	Actual award
Howard Kerr	50%	51.0%	£168,039
Craig Smith	40%	42.0%	£107,052
Scott Steedman*	40%	41.4%	£20,691

* As a director. 2012 total bonus including amount receivable for role prior to appointment: £60,522

Long Term Incentive Plan vesting in 2012

Participants in the LTIP were awarded Participation Units ('PUs') with a proportion of those vesting depending on the achievement of an operating profit target for the third financial year after award. Vesting is on a predetermined scale rising from 50% to a maximum of 150% of PUs originally granted depending on target achievement. For the LTIPs granted in 2010 the Group 'management operating profit' target in 2012 for 100% vesting was £36.0m. As actual Group 'management operating profit' for 2012 was below the threshold level of £34.0m, no PUs vested with respect to the 2012 financial year.

Long Term Incentive Plan awarded in 2012

Participants in the LTIP were awarded PUs in the year ended 31 December 2012. A proportion of those will vest depending upon the achievement of a 'management operating profit' target for the third financial year after award, i.e. 2015. Vesting is on a predetermined scale rising from 50% to a maximum of 150% of PUs originally granted, depending on the target achieved. The PUs granted under the LTIP in 2012 were:

2012 LTIP grant	PUs granted
Howard Kerr	215,472
Craig Smith	125,000
Scott Steedman	90,000

Pensions entitlements

Howard Kerr has a personal pension arrangement towards which the Company made contributions of 15% of his basic salary. Craig Smith and Scott Steedman participate in the BSI UK Pension Plan (the BSI Stakeholder Plus Pension Plan until 1 November 2012), into which the Company makes contributions of 12% of their basic salary. Mike Low received no pension benefits in 2012.

Loss of office payments

No payments for loss of office were made in 2012 (2011: £198,000).

Comparison of overall performance and pay with shareholder returns

As a Royal Charter company without a share capital, the use of share related performance measures for the Company is not possible.

Remuneration Policy

Element	How it supports long and short term strategy	Operation and recovery	Maximum value	Performance metrics	Changes since last payment
Salary and Fees	By attracting, retaining and motivating individuals of the quality required to further the interests of the organization.	The base salaries of Executive Directors are determined on an individual's responsibility and performance. Consideration is given to remuneration in comparable organizations. Non-executive Directors receive a fee for their services to the Company.			
Benefits	By providing a benefits package appropriate to the role of the individual and competitive with similar organizations.	Benefits in kind for Executive Directors principally include, where appropriate, the provision of a company car and fuel as well as medical and life insurance. The Non-executive Directors do not receive any benefits in kind.			
Pension benefits	By providing a cost-effective retirement benefit as part of an overall remuneration package.	The Company makes contributions into defined contribution pension arrangements for Executive Directors.			
Bonuses	By incentivizing Directors to align their performance to the delivery of the shorter-term goals of the business.	Awarded to Executive Directors subject to the fulfilment of specific short-term criteria, determined with reference to BSI's objectives. These targets are established annually and amended if necessary. There is no right of recovery.	Maximum bonuses for H Kerr, C Smith and S Steedman were 100%, 80% and 80% of basic salary, respectively.	Bonuses were awarded to each individual based 50% on Group 'management operating profit', 20% on cash and 30% on personal objectives. On target awards for H Kerr, C Smith and S Steedman were 50%, 40% and 30% of basic salary, respectively.	For 2013 the targets have been changed to include revenue growth. Bonus targets for H Kerr and C Smith for 2013 are based 30% on Group 'management operating profit', 30% on Group revenue, 20% on cash and 20% on personal objectives. Bonus targets for S Steedman for 2013 are based 40% on Group 'management operating profit', 40% on Group revenue and 20% on personal objectives. On target awards for H Kerr, C Smith and S Steedman were 50%, 40% and 40% of basic salary, respectively.
LTIPs	By incentivizing Directors to align their performance to the delivery of longer term strategic aims and goals of the business.	These are only awarded to Executive Directors subject to the fulfilment of longer-term criteria, determined with reference to BSI's objectives. These targets are established annually and amended if necessary. There is no right of recovery.	A maximum of 150% of Participation Units (PUs) may vest depending on target achievement.	Participation Units (PUs) are awarded to Executive Directors by the Remuneration Committee. A proportion of these vest, depending on the achievement of an 'management operating profit' target for the third financial year after award.	For 2013 the targets have been changed to include revenue growth as a measure alongside the existing target of Group 'management operating profit'.

Notes:

- Remuneration is provided on the same basis to all employees in order to attract, retain and motivate individuals and is provided at a level appropriate to their role and location.
- Performance conditions have been selected by the Committee to incentivize performance. These conditions are kept under review and, in line with the BSI Group's focus on growth, revenue targets were added for 2013.

"Salaries and benefits are regularly reviewed and compared to the general market."

Service contracts

Formal service contracts of the Executive Directors with the Company are as follows:

	Service contract dated	Appointment commenced	Notice period provided for
Howard Kerr	21 October 2008	1 December 2008	12 months by either party
Craig Smith	20 July 2011	15 August 2011	6 months by either party
Scott Steedman	31 October 2011	1 October 2012	6 months by either party
Mike Low	30 July 2003	1 November 2003	6 months by either party

Other than set out above, there was no other person who served as an Executive Director of the Company during the year ended 31 December 2012. Apart from service contracts or Non-executive Directors' letters of appointment, no contract subsisted during or at the end of the financial year in which a director is or was materially interested and which is or was significant in relation to the BSI Group's business during the period under review.

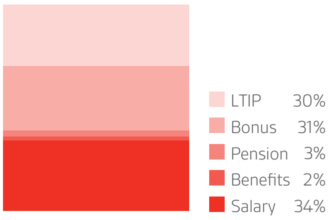
The Non-executive Directors do not have service contracts. Details of their letters of appointment are as follows:

	Letter of appointment dated	Appointment commenced	Role
Sir David Brown	27 May 2010 19 December 2011	27 May 2010 1 December 2011 31 March 2012	as Non-executive Director as Deputy Chairman as Chairman
Keith Clarke	8 December 2010	8 December 2010	as Non-executive Director
Tom Gorrie	22 July 2009 12 July 2012	1 September 2009 1 September 2012	as Non-executive Director re-appointed
Sir David John	26 March 2002	1 May 2002 24 July 2002	as Non-executive Director as Chairman
Anthony Lea	13 June 2007 8 June 2010	1 July 2007 1 July 2010	as Non-executive Director re-appointed
John Regazzi	24 May 2006 29 May 2009 17 May 2012	1 June 2006 1 June 2009 1 June 2012	as Non-executive Director re-appointed re-appointed
Lucinda Riches	17 May 2012	17 May 2012	as Non-executive Director

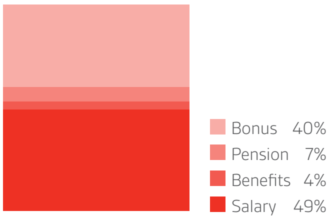
Total compensation scenario

The chart below illustrates the split by pay element of the potential maximum remuneration entitlement for each Executive Director for 2012. This has been calculated based on a maximum annual bonus being achieved for 2012 and the maximum 150% vesting of LTIPs PUs capable of vesting for 2012.

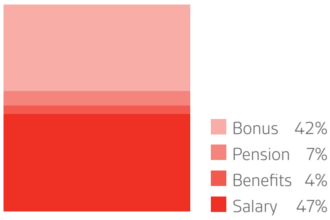
Howard Kerr



Craig Smith



Scott Steedman



Exit payment policy

Executive Directors have rolling contracts setting out notice periods which provide for six months' termination of employment by either the director or by the Company; except for the Chief Executive whose contract specifies twelve months by either party. In accordance with the Company's policy, no director has contractual rights for compensation on early termination beyond payment of the contractual notice period. The appointment of Non-executive Directors is for three years and is subject to a notice period of one month.

Directors' remuneration and remuneration in the BSI Group

Salaries and benefits are regularly reviewed and compared to the general market (including FTSE 350 companies) and competitor businesses, which covers the majority of our recruitment sources at the senior management and executive levels. The survey data is compiled via both generic third-party surveys and specific, targeted research. In considering the salary levels for the Directors, the Committee also considers the employment market conditions and the pay levels across the Group.

For 2012 the Committee awarded a salary increase of 2.5% to Howard Kerr, Chief Executive. This is compared with an average increase of 2.4% awarded to the Group's UK employees. All salary increases are awarded in March each year.

Audited information

The Remuneration report consists of unaudited information with the exception of the section entitled 2012 Remuneration on pages 37 and 38.

By Order of the Board

Keith Clarke
Chairman of the Remuneration Committee
21 March 2013

Report of the Nominations Committee

The Nominations Committee ('the Committee') is established by the Board under terms of reference that were most recently updated in July 2011. A copy of the Committee's terms of reference is available on the BSI Group website.

Membership

During the year ended 31 December 2012 the Committee comprised:

Sir David Brown
Chairman
(from 31 March 2012)
(previously member)

Sir David John KCMG
Chairman
(to 30 March 2012)

Howard Kerr

Keith Clarke

Tom Gorrie

Anthony Lea

John Regazzi

Lucinda Riches
(from 17 May 2012)

Meetings

The Committee met three times in the year ended 31 December 2012. When appropriate, Pat Chapman-Pincher, as an advisor to the Board is invited by the Committee to attend its meetings.

Attendance	Nominations Committee
Number of meetings:	3
Sir David Brown (Chairman)	3/3
Sir David John (previous Chairman)	1/1
Howard Kerr	3/3
Keith Clarke	3/3
Tom Gorrie	3/3
Anthony Lea	3/3
John Regazzi	2/3
Lucinda Riches	2/2

Main activities of the Committee

The role of the Committee includes reviewing the size, structure and composition of the Board and making recommendations to the Board on these matters and to put in place succession plans for Directors, including the Chairman and Chief Executive. This involves a continuing assessment of the balance of skills, knowledge, experience and diversity on the Board.

There is a formal, rigorous and transparent procedure for the appointment of new Directors.

During 2012 the Committee considered and made recommendations to the Board regarding, among other things, the annual re-appointment of the Chairman, Directors standing for re-election at the Annual General Meeting and appointments to the Board and its Committees.

By Order of the Board

Sir David Brown
Chairman of the Nominations Committee
21 March 2013

Corporate governance

Directors' report

"BSI had an average of 2,796 employees worldwide during the year."

The Directors submit their report and audited financial statements for The British Standards Institution and its subsidiaries for the year ended 31 December 2012.

Principal activities and review of business

The British Standards Institution is an independent, global business services organization. The Company's and its subsidiaries' principal activities are the development and sale of private, national and international standards; second and third-party certification of management systems; testing and certification services both for products and services; provision of performance management software solutions; a range of training services in support of standards implementation and business best practice; and business consultancy.

The Chairman's statement, Chief Executive's review, Operational review and Financial review form part of this report and together comprise the Board's Operating and Financial review, including disclosure of the key performance indicators used to manage the business.

The Board

The members of the Board at the current time are listed on pages 26 and 27. The Directors who served during the year were as follows:

Sir David Brown
Sir David John KCMG (to 30 March 2012)
Howard Kerr
Craig Smith
Scott Steedman (from 1 October 2012)
Mike Low (to 30 September 2012)
Keith Clarke
Tom Gorrie
Anthony Lea
John Regazzi
Lucinda Riches (from 17 May 2012)

The Company Secretary is Tony Wales.

The Company's Bye-law 8 requires Directors to submit themselves for re-election at the next Annual General Meeting following their appointment by the Board. As a new Director, Scott Steedman will be offering himself for re-election at the forthcoming AGM. In addition, under Bye-law 9, one-third (rounded down) of the Directors not standing under Bye-law 8 are required to retire by rotation and stand for re-election and, accordingly, Anthony Lea and John Regazzi will also be standing for re-election at the AGM.

Directors and officers' liability

The BSI Group maintains Directors' and Officers' Liability Insurance in respect of the acts or omissions of its Directors and Executives. Details of the policy are provided to new Directors on appointment.

Directors' emoluments

Information on emoluments of the Directors is given in the Remuneration report on pages 36 to 41.

Annual general meeting

The 2013 Annual General Meeting will be held at 4.00pm on 23 May 2013 at 389 Chiswick High Road, London W4 4AL. Business to be considered at the meeting is set out in a separate Notice of Meeting despatched to the members.

Independent auditors

The BSI Group's auditors for the year ended 31 December 2012 were PricewaterhouseCoopers LLP. A tender process is underway to select the Company's auditors for the year ending 31 December 2013 and a resolution to appoint auditors will be proposed accordingly at the forthcoming Annual General Meeting.

Charitable and political donations

The BSI Group made total charitable donations of £15,090 during 2012 to various charities (2011: £33,896 including a special donation of £21,967 for the Japanese tsunami relief effort). No donations were made during the year for political purposes (2011: £nil).

Employees

The BSI Group had an average of 2,796 employees (2011: 2,730) worldwide during the year of whom 59% (2011: 58%) were based outside the UK. The BSI Group communicates and consults with its employees on a wide range of subjects, including those which directly affect them, using email, websites, intranet, in-house publications and meetings at business locations. The employees of the BSI Group are instrumental in its success and the organization works hard to maintain good relationships with its employees around the world through continuous communications and employee forums. Periodically the BSI Group conducts a regular employee engagement survey with the results used to identify and then action opportunities to improve engagement.

Further details of the BSI Group's engagement with its employees are set out in the 'Our people' section of the Social Responsibility report on pages 24 and 25.

Equality and diversity

The BSI Group takes the issues of equality and diversity seriously. By using the talent and skills available in all groups and communities in the countries in which it operates, the organization is able to build the strong team it requires to deliver the strategy for its business. The BSI Group uses job-related objective criteria in the selection of candidates and when considering development opportunities.

Directors' report continued

Board (and Board advisor)
by sector experience

The BSI Group is committed to providing a work environment free from harassment and discrimination. The organization accepts its obligations to people with disabilities and endeavours to treat them fairly in relation to job applications, training, promotion and career development. If employees become disabled while employed, every effort is made to enable them to continue working either in their original job or some suitable alternative.

Health and safety

The BSI Group is committed to safeguarding the health, safety and welfare of its employees and providing and maintaining safe working conditions, as far as is reasonably practicable. The BSI Group also recognizes that, in addition to its employees, it has responsibilities to all persons on its premises, such as contractors, clients, visitors and members.

There were no RIDDOR reportable accidents during 2012 but there was one case of RSI in our Canadian operation that led to a 70 day absence. There was a decrease in the number of Lost Time Accidents (2 accidents in 2012 against 4 accidents in 2011). There were no fatalities or serious injuries.

Principal risks and uncertainties

The principal risks and uncertainties facing the business are detailed on pages 22 and 23.

Read our principal risks and uncertainties on **pages 22 and 23**.

Social responsibility

A review of the Group's social responsibility activities during the year is set out on pages 24 and 25.

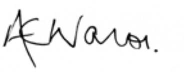
Suppliers

The BSI Group aims to pay its suppliers promptly and in accordance with its contractual and other legal obligations. The organization's policy is to agree payment terms with its suppliers at the start of any business with them and to endeavour to ensure that they are aware of the terms of payment. At 31 December 2012 the organization had 11 days' purchases outstanding (2011: 13 days) based on the average daily amount invoiced by suppliers during the year.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the parent company's and the BSI Group's financial statements.

By Order of the Board



Tony Wales
Company Secretary
21 March 2013

Financial statements

Independent auditors' report – Consolidated financial statements

to the Board of Directors of The British Standards Institution

We have audited the consolidated financial statements of The British Standards Institution for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements in accordance with The British Standards Institution's Royal Charter and Bye-laws and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with paragraph 21 of The British Standards Institution's Royal Charter and Bye-laws and applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's Board of Directors as a body in accordance with The British Standards Institution's Royal Charter and Bye-laws and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with The British Standards Institution's Royal Charter and Bye-laws and the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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.

Other matter

We have reported separately on the parent company financial statements of The British Standards Institution for the year ended 31 December 2012.

Kate Wolstenholme (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 March 2013

Financial statements

BSI Group consolidated income statement

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Revenue	5, 6	254.6	244.9
Cost of sales		(129.1)	(124.1)
Gross profit		125.5	120.8
Selling and distribution expenses		(33.6)	(32.3)
Administrative expenses		(59.9)	(59.8)
Operating profit before exceptional costs		32.0	28.7
Exceptional operating income/(costs)	7	0.9	(1.8)
Operating profit		32.9	26.9
Finance income	11	0.6	0.2
Finance costs	11	(2.0)	(2.9)
Profit before income tax		31.5	24.2
Income tax expense	12	(8.2)	(6.8)
Profit for the year	24	23.3	17.4

All amounts in the consolidated income statement relate to continuing operations.

The accompanying notes on pages 51 to 77 form an integral part of the consolidated financial statements.

BSI Group consolidated statement of comprehensive income

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit for the year		23.3	17.4
Other comprehensive income:			
Actuarial loss relating to retirement benefit obligations	23	(16.8)	(15.3)
Movement on deferred tax relating to retirement benefit obligations	15	1.7	1.9
Cash flow hedges	24	0.1	(0.2)
Currency translation differences	24	(1.4)	(0.5)
Other comprehensive loss for the year, net of tax		(16.4)	(14.1)
Total comprehensive income for the year		6.9	3.3

No separate statement of changes in equity has been presented in these financial statements as there are no changes in equity other than those disclosed in the consolidated statement of comprehensive income above.

The accompanying notes on pages 51 to 77 form an integral part of the consolidated financial statements.

Financial statements

BSI Group consolidated balance sheet

as at 31 December 2012

	Note	2012 £m	2011 £m
ASSETS			
Non-current assets			
Property, plant and equipment	13	10.9	10.4
Goodwill	14	26.2	26.4
Intangible assets	14	17.5	15.2
Deferred tax assets	15	16.9	19.6
Trade and other receivables	18	1.5	—
Total non-current assets		73.0	71.6
Current assets			
Inventories	17	—	0.2
Trade and other receivables	18	53.1	51.2
Current tax assets		1.0	0.9
Cash and cash equivalents	20	41.0	39.7
Total current assets		95.1	92.0
Total assets		168.1	163.6
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	15	(1.9)	(2.0)
Retirement benefit obligations	23	(60.3)	(59.1)
Provisions for liabilities and charges	22	(1.5)	(2.9)
Trade and other payables	21	(2.2)	(0.6)
Total non-current liabilities		(65.9)	(64.6)
Current liabilities			
Trade and other payables	21	(50.9)	(53.1)
Current tax payables		(1.2)	(1.5)
Derivative financial instruments	19	—	(0.1)
Provisions for liabilities and charges	22	(0.2)	(1.3)
Total current liabilities		(52.3)	(56.0)
Total liabilities		(118.2)	(120.6)
Net assets		49.9	43.0
RESERVES			
Retained earnings	24	46.8	38.5
Translation reserve	24	3.1	4.5
Total reserves		49.9	43.0

The accompanying notes on pages 51 to 77 form an integral part of the consolidated financial statements. The consolidated financial statements on pages 47 to 77 were approved by the Board of Directors on 21 March 2013 and were signed on its behalf by:

Craig Smith
Group Finance Director
21 March 2013

BSI Group consolidated statement of cash flows

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Cash flows from operating activities			
Profit before income tax		31.5	24.2
Adjustments for:			
– Retirement benefit charges	23	0.1	—
– Depreciation of property, plant and equipment	7	2.5	2.5
– Amortization of intangible assets	7	3.4	3.2
– Loss on disposal of property, plant and equipment	7	0.1	0.1
– (Reversal of)/impairment of property, plant and equipment	7	(0.2)	0.3
– Provision for impairment of trade receivables	7	0.3	0.5
– Bad debts written off	7	0.4	0.3
– Finance income	11	(0.6)	(0.2)
– Finance costs	11	2.0	2.9
Changes in working capital (excluding the exchange differences on consolidation):			
– Decrease in inventories		0.2	—
– Increase in trade and other receivables		(5.4)	(6.7)
– Increase in trade and other payables		0.1	1.9
– (Decrease)/increase in provisions and other liabilities		(2.2)	0.7
– Retirement benefit payments	23	(18.0)	(17.0)
Cash generated from operations		14.2	12.7
Interest received		0.4	0.2
Income tax paid		(4.0)	(2.9)
Net cash generated from operating activities		10.6	10.0
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		0.1	—
Purchases of property, plant and equipment	13	(3.0)	(5.9)
Purchases of intangible assets	14	(5.9)	(5.9)
Purchases of minority interest		(0.1)	—
Net cash used in investing activities		(8.9)	(11.8)
Net increase/(decrease) in cash and cash equivalents		1.7	(1.8)
Opening cash and cash equivalents		39.7	41.4
Exchange (losses)/gains on cash and cash equivalents		(0.4)	0.1
Closing cash and cash equivalents	20	41.0	39.7

The accompanying notes on pages 51 to 77 form an integral part of the consolidated financial statements.

Financial statements

Notes to the consolidated financial statements

for the year ended 31 December 2012

1. Corporate information

The British Standards Institution is a company incorporated by Royal Charter in the United Kingdom and domiciled in the United Kingdom. The address of its registered office is 389 Chiswick High Road, London W4 4AL.

The principal activities of The British Standards Institution ("the Company") and its subsidiaries (together "the Group") are the development and sale of private, national and international standards; second and third-party certification of management systems; testing and certification services both for products and services; provision of performance management software solutions; a range of training services in support of standards implementation and business best practice; and business consultancy.

The Group consolidated financial statements were authorized for issue by the Board of Directors on 21 March 2013.

2. Principal accounting policies

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

a. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss. As permitted under the Companies Act 2006 the results of the Company are prepared and presented separately under UK GAAP.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The consolidated financial statements are presented in British Pounds Sterling (£) and all values are rounded to the nearest £100,000 except when otherwise indicated.

i. New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

ii. New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'Other Comprehensive Income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
- IAS 19, 'Employee benefits' was amended in June 2011. The impact on the Group will be as follows: to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The impact on the Group is estimated to be to increase net operating costs by a current service cost charge of £0.8m and to increase the net interest cost by £1.6m in the year to 31 December 2013.
- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, subject to endorsement by the EU.
- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

2. Principal accounting policies continued

b. Basis of consolidation

i. Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

ii. Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

iii. Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

c. Segment reporting

Included in these financial statements are the results of the business segmented in line with the principal geographic regions in which it trades together with the principal business streams consistent with the management information provided internally to the Board. The Board constitutes the chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments.

d. Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in British Pounds Sterling, which is the Group's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

2. Principal accounting policies continued

d. Foreign currency translation continued

iii. Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate. Exchange differences are recognized in other comprehensive income.

e. Property, plant and equipment

All items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and assets under construction are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Freehold buildings	20 years
Short Leasehold improvements	Over the unexpired term of the lease
Plant, machinery and office equipment	3 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal factors that the Group takes into account are the expected rate of technological developments and the intensity at which the assets are expected to be used.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2g).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within administrative expenses in the income statement.

f. Intangible assets

i. Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or group of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

ii. Computer software

Acquired computer software and licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over 3 – 5 years, or the length of licence as appropriate.

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;

2. Principal accounting policies continued

f. Intangible assets continued

ii. Computer software continued

- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Costs include the software development employee costs. The application and infrastructure development costs of product delivery websites are also capitalized where the same criteria can be met. These assets are amortized on a straight-line basis over 3 years.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

iii. Acquired intangible assets

On the acquisition of a subsidiary undertaking, fair values are attributed to the acquired identifiable tangible and intangible assets, liabilities and contingent liabilities.

Acquired intangibles include customer relationships and intellectual property. These are capitalized based on valuations using discounted cash-flow analysis and amortized on a straight-line basis over their estimated useful economic lives. The estimated useful life of these intangible assets is three – ten years.

g. Impairment of non-financial assets

Assets that have an indefinite useful life – for example goodwill or intangible assets not ready to use – are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

h. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 2l and 2m).

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 18.

i. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

j. Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2. Principal accounting policies continued

j. Impairment of financial assets continued

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  i. adverse changes in the payment status of borrowers in the portfolio; and

  ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

Impairment testing of trade receivables is described in Note 18.

k. Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

i. hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or

ii. hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 19. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than twelve months, and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

i. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognized in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognized in the income statement within 'other gains/(losses) – net'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognized in the income statement within 'finance costs'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity.

ii. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement within 'other gains/(losses) – net'.

2. Principal accounting policies continued

k. Derivative financial instruments continued

ii. Cash flow hedge continued

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the income statement within 'finance income'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other gains/(losses) – net'.

Fair value of forward currency contracts is based on forward foreign exchange market rates at the balance sheet date.

The Group uses forward currency contracts to manage currency exposure risk on major contracts, committed receipts and payments and intra-group funding. The Group does not hold or issue any other derivative financial instruments.

l. Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

m. Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are shown within borrowings in current liabilities on the consolidated balance sheet but are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

n. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

o. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. Principal accounting policies continued

p. Provision for liabilities and charges

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

q. Employee benefits

i. Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

ii. Bonus plans

The Group recognizes a liability and an expense for bonuses where it is anticipated that there is a reasonable probability that a payment will be made.

r. Retirement benefit obligations

i. Defined benefit pension schemes

The Group operates a funded defined benefit scheme in the UK, administered by independent trustees. The scheme is closed to new entrants and closed to future accrual of pension.

The Group's net obligation in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the scheme up to 30 April 2010 (the date the scheme closed to the accrual of benefits). That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The valuation of the Group's net obligation is performed by an independent qualified actuary as determined by the trustees. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit actuarial method where estimated future cashflows are discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The income statement charge is split between an operating charge and a net finance charge. The operating charge relates to service costs which are nil as the scheme is closed to future accrual of benefits. The net finance charge relates to the unwinding of the discount applied to the liabilities of the scheme offset by the expected return on the assets of the scheme, based on conditions prevailing at the start of the year.

Actuarial gains and losses are charged or credited to equity in other comprehensive income in the period in which they arise.

ii. Defined contribution pension schemes

The Group pays fixed contributions to an external pension provider and has no legal or constructive obligations to pay any further amounts. The contributions are recognized as employee benefit expense when they are due.

s. Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Significant categories of revenue and the recognition criteria for each are detailed below:

i. Sales of goods

The Group sells standards and other publications in hard copy and in electronic formats. Sales of goods are recognized when the Group sells a product to the customer.

ii. Rendering of services

The Group provides a variety of assessment and certification services, consultancy services and training services. Sales value is recognized as the services are performed.

Membership, subscriptions and annual management fees provide varying levels of service within the different divisions of BSI Group, which can include access to BSI Group information services, access to published standards information, newsletters, advisory services, discounts on products and invitations to events and seminars. Revenue is spread over the life of the arrangement, which is normally one year but can vary depending on the level of service and specific agreements with customers.

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

2. Principal accounting policies continued

s. Revenue continued

iii. Copyright and royalty income

The Group recognizes copyright and royalty income on an accrual basis or when it is advised by the customer, generally on a monthly basis. Where there are licence arrangements, fees are spread over the life of the licence.

t. Exceptional items

The Group presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow users of the financial statements to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

u. Borrowing costs

Borrowing costs are recognized as an expense when incurred.

v. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

w. Long term incentive plan

The Group has a long-term incentive plan as referred to in the report of the Remuneration Committee. The costs of the plan have been accrued and charged to the income statement over the period of the plan so as to accrue, on a pro-rata basis, the anticipated incentive payments that may vest.

x. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first in first out basis and includes transport and handling costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Where necessary, provision is made for obsolete, slow moving and defective inventory.

y. Other income

i. Interest income

Interest income is recognized on a time-proportion basis using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

ii. Rental income

The Group sub-lets a number of leased properties in the UK. Rental income is recognized on an accruals basis in accordance with the relevant agreements and is netted off against lease rental payments.

3. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. As part of an overall risk management programme, the Group focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Financial risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, use of derivative financial instruments and non-derivative financial instruments, credit risk and investment of excess liquidity. Operating within these guidelines, Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

a. Market risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro, Chinese Renminbi and the Japanese Yen. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group Treasury's risk management policy is to hedge known key foreign currency transactions and to hedge material balance sheet items that are held in currencies other than the functional currency of the entity concerned. The Group buys or sells currencies forwards so as to hedge exchange risk on relevant transactional activities.

3. Financial risk management continued

a. Market risk continued

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The Group does not seek to hedge these net assets and recognizes that an element of balance sheet volatility is inherent in managing foreign operations.

The exposure of the Group's operating profit to movements in foreign currency is expressed below. This analysis considers the impact of an adverse change of 10% in the exchange rate between British Pound Sterling and the most significant foreign currencies used in the Group. The example movement of 10% has been selected in order to demonstrate the level of movement required in order to create a material impact.

Currency	Year-end exchange rate	Exchange movement modelled	Adverse impact on operating profit
US Dollar	1.61	+10%	£0.3m
Euro	1.22	+10%	—
Chinese Renminbi	10.20	+10%	—
Japanese Yen	138.51	+10%	£0.1m

A similar movement of 10% in British Pound Sterling against all of the currencies in which the Group has exposure would result in an adverse operating profit impact of £0.7m.

b. Credit risk

Credit risk for the Group arises in the form of both the credit risk of banking institutions holding the Group's cash and short term investment assets and in the form of accounts receivable from customers.

The Group's credit risk from banking institutions is considered to be low. The majority of funds are held in the UK with five relationship banks (HSBC, RBS, Barclays Lloyds and The Co-Operative Bank), with counterparty limits operated in accordance with Board policies. Furthermore we have a global banking arrangement with HSBC resulting in most overseas funds being held with them. All counterparties are reviewed on an ongoing basis for financial strength.

New customers are reviewed for creditworthiness with credit terms amended as appropriate. No work is undertaken for customers with overdue debts outstanding. Group credit risk from accounts receivable is believed to be minimal and, where appropriate, to be provided against.

c. Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times.

Surplus cash held by the operating entities over and above the balances required for working capital management are transferred to Group Treasury. Group Treasury invests surplus cash in interest bearing current accounts, term deposits, and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by maintaining availability under committed credit lines. These credit lines were unused at the year end.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facility and cash and cash equivalents) on the basis of expected cash flow.

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. As the majority of the payables are short term in nature, their fair values approximate to their carrying values as the impact of discounting is not significant.

At 31 December 2012	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Trade and other payables excluding deferred income	31.5	—	—	1.3

At 31 December 2011	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Trade and other payables excluding deferred income	34.3	—	—	—
Derivative financial instruments	0.1	—	—	—

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

4. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a. Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2g. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require management to make an estimate of the expected future cash flows from cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of key assumptions are disclosed in Note 14.

b. Income taxes

The Group is subject to income taxes in numerous jurisdictions. A level of judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

c. Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

d. Retirement benefit obligations

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

The Group's benefit obligation using a discount rate of 4.50% is £329.9m (2011: Discount rate of 4.85%, £306.8m). For an increase in the discount rate of 0.25% the liabilities reduce to approximately £316.9m (2011: £294.5m). For a decrease in the discount rate of 0.25% the liabilities will increase to approximately £343.5m (2011: £319.5m). The expected average age of death for a male pensioner presently aged 65 is age 88.5 (2011: 88.4). For an increase of one year in longevity the liability increases from £329.9m to £339.5m (2011: £306.8m to £315.4m).

The Group has used a Retail Prices Index (RPI) inflation assumption of 3.00% (2011: 2.95%). An increase of 0.25% in this assumption increases the liabilities by £4.7m to £334.6m (2011: £4.1m to £310.9m) and increases the assets by £0.3m to £270.3m (2011: £0.2m to £247.9m). A reduction of 0.25% in this assumption decreases the liabilities by £4.6m to £325.3m (2011: £4.0m to £302.8m) and reduces the assets by £0.2m to £269.8m (2011: £0.2m to £247.5m).

Life expectancy at age 65 for a member currently aged 45 is 24.9 years (men) or 26.1 years (women). Life expectancy for a member currently aged 65 is 23.5 years (men) or 24.6 years (women).

The liabilities have been calculated by and the assumptions set on the recommendations of an independent qualified actuary.

The liabilities allow for indexation of benefits in line with the Consumer Prices Index (CPI).

e. Provisions

Judgement and estimation techniques are employed in the calculation of the best estimate of the amount required to settle obligations, including determining how likely it is that expenditure will be required by BSI. Provisions are shown under "Other provisions" in Note 22.

5. Segment information

Included in these financial statements are the results of the business segmented in line with the principal geographic regions in which it trades together with the principal business streams consistent with the management information provided internally to the Board as the chief operating decision-maker.

The geographic regions considered by management and reported here are EMEA, Asia Pacific and the Americas. The business streams reported are:

- Knowledge – Standards global business.
- Assurance – Assessment and certification of management systems and the provision of testing and certification of healthcare and other products.
- Compliance – Training services on standards, regulatory approval and business improvement and Governance Risk and Compliance management solutions.

The BSI Standards business is reviewed separately by management and is included within the regional analysis as a discrete entity.

Group Governance comprises those functions responsible for directional oversight and policy framework creation and compliance for the Group.

The performance of these operating segments is measured at an adjusted operating profit level and that treatment is reported here. This measure excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and expenses for Group-wide projects together with amortization costs for customer relationships and intellectual properties. The measure also excludes Long Term Incentive Plan (LTIP) costs, the financing costs and actuarial adjustments of the defined benefit pension scheme, interest income and tax expenses. Since the management reviews adjusted operating profit, the results of any discontinued operations are not included in the measure of adjusted operating profit.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated income statement.

The segment information provided to the Board for the reportable segments for the year ended 31 December 2012 is as follows:

	EMEA £m	UK Standards £m	Americas £m	Asia Pacific £m	Group Governance £m	Group £m
Total segment revenue	93.1	47.9	58.2	59.6	—	258.8
Inter and intra-segment revenue	(2.2)	(0.5)	(0.4)	(1.1)	—	(4.2)
Revenue from external customers	90.9	47.4	57.8	58.5	—	254.6
Adjusted operating profit	13.6	15.3	4.9	3.0	(4.4)	32.4
Depreciation and amortization	(2.6)	(1.2)	(0.8)	(1.3)	—	(5.9)
Reversal of impairment of property, plant and equipment	0.2	—	—	—	—	0.2
Finance income	—	—	—	—	0.6	0.6
Finance costs	—	—	—	—	(2.0)	(2.0)
Income tax expense	(2.4)	(1.0)	(2.6)	(2.2)	—	(8.2)
Total assets[3]	44.5	20.5	24.4	32.7	47.7	169.8
Total assets includes:						
Additions to non-current assets (other than financial instruments and deferred tax assets)	3.1	2.2	1.4	2.2	—	8.9
Total liabilities[1,3]	(22.0)	(18.7)	(6.4)	(11.7)	(61.1)[2]	(119.9)

1 The measure of liabilities has been disclosed for each reportable segment and is provided to the Board
2 Included here is an amount of £59.9m relating to pension liabilities for the Group which have not been allocated to the segments disclosed above
3 The reconciliation of Total assets and liabilities to those shown on the balance sheet is shown on page 63

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

5. Segment information continued

The segment information provided to the Board for the reportable segments for the year ended 31 December 2011 is as follows:

	EMEA £m	UK Standards £m	Americas £m	Asia Pacific £m	Group Governance £m	Group £m
Total segment revenue	91.9	45.5	54.7	56.6	—	248.7
Inter and intra-segment revenue	(2.1)	(0.4)	(0.4)	(0.9)	—	(3.8)
Revenue from external customers	89.8	45.1	54.3	55.7	—	244.9
Adjusted operating profit	14.1	14.1	3.4	3.0	(4.4)	30.2
Depreciation and amortization	(2.8)	(0.9)	(0.8)	(1.2)	—	(5.7)
Impairment of property, plant and equipment	(0.3)	—	—	—	—	(0.3)
Finance income	—	—	—	—	0.2	0.2
Finance costs	(0.1)	—	—	—	(2.8)	(2.9)
Income tax expense	(2.6)	(2.9)	(1.1)	(0.2)	—	(6.8)
Total assets[3]	45.1	20.2	29.4	32.1	36.3	163.1
Total assets includes:						
Additions to non-current assets (other than financial instruments and deferred tax assets)	4.2	2.5	2.3	2.8	—	11.8
Total liabilities[1,3]	(22.3)	(17.4)	(7.1)	(12.9)	(60.4)[2]	(120.1)

1 The measure of liabilities has been disclosed for each reportable segment and is provided to the Board
2 Included here is an amount of £59.1m relating to pension liabilities for the Group which have not been allocated to the segments disclosed above
3 The reconciliation of Total assets and liabilities to those shown on the balance sheet is shown on page 63

A reconciliation of adjusted operating profit to profit before income tax is provided as follows:

	2012 £m	2011 £m
Adjusted operating profit for reportable segments	36.8	34.6
Group Governance costs – adjusted operating loss	(4.4)	(4.4)
Total segments	32.4	30.2
Amortization of customer relationships and intellectual property	(0.4)	(0.8)
Reorganization of German operating sites	(1.1)	—
Restructuring and reorganization costs	0.7	(1.6)
Rationalization of UK operating sites	(0.3)	(0.2)
Release of business exit provisions	1.6	—
Rebranding costs	(0.5)	—
Other one off costs	(0.4)	—
LTIP provision release/(expense)	0.9	(0.7)
Finance costs	(2.0)	(2.9)
Finance income	0.6	0.2
Profit before income tax	31.5	24.2

The amounts provided to the Board with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

5. Segment information continued

Reportable segment assets are reconciled to total assets as follows:

	2012 £m	2011 £m
Segment assets for reportable segments	122.1	126.8
Group Governance assets	47.7	36.3
Reclassifications:		
Current tax	—	0.9
Trade and other receivables	(1.7)	(0.4)
Total assets per the balance sheet	168.1	163.6

The amounts provided to the Board with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

Reportable segment liabilities are reconciled to total liabilities as follows:

	2012 £m	2011 £m
Segment liabilities for reportable segments	58.8	59.7
Group Governance liabilities	61.1	60.4
Reclassifications:		
Current tax	—	0.9
Trade and other payables	(1.7)	(0.4)
Total liabilities per the balance sheet	118.2	120.6

Revenues from external customers are derived from our primary business streams. The breakdown of this revenue is as follows:

	2012 £m	2011 £m
Knowledge	47.7	45.6
Assurance	181.5	176.9
Compliance	25.4	22.4
Revenue from external customers	254.6	244.9

Based on where the customer is located the result of revenue from external customers in the UK is £95.2m (2011: £91.8m), and the total of revenue from external customers in other countries is £166.8m (2011: £153.1m). The major components of the total of revenue from external customers from other countries are £46.3m (2011: £42.8m) for United States of America and £22.8m (2011: £24.0m) for Japan.

The total of non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts located in the UK is £33.0m (2011: £30.5m), and the total of these non-current assets located in other countries is £21.8m (2011: £21.5m).

As the Group transacts with a large number of diversified customers, there are no cumulative revenue transactions amounting to 10% or more of total external revenue derived from any single external customer (2011: Nil).

6. Revenue

Revenue recognized in the income statement is analysed as follows:

	2012 £m	2011 £m
Sale of goods	11.6	11.9
Rendering of services	229.7	220.6
Copyright and royalty income	13.3	12.4
Total revenue	254.6	244.9

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

7. Operating profit

Operating profit is stated after charging/(crediting) the following:

	Note	2012 £m	2011 £m
Employee benefit expense	8	113.6	115.4
Depreciation of property, plant and equipment	13	2.5	2.5
(Reversal of)/impairment of property, plant and equipment	13	(0.2)	0.3
Amortization	14	3.4	3.2
Provision for impairment of trade receivables	18	0.3	0.5
Operating lease payments for plant and machinery	10	1.8	2.1
Operating lease payments for land and buildings	10	6.2	5.6
Loss on disposal of property, plant and equipment		0.1	0.1
Rental income from sub-lease of properties	10	(0.5)	(0.5)
Bad debts written off		0.4	0.3
Other exchange losses		0.3	0.4
Auditors' remuneration:			
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements		0.4	0.3
Fees payable to the Group's auditors and their associates for other services:			
– The audit of the Company's subsidiaries pursuant to legislation		0.1	0.1
– Tax advisory services		0.2	0.1
– Other advisory services		—	0.1

Exceptional operating income/(costs)	2012 £m	2011 £m
Release of business exit provisions	1.6	—
Rationalization of UK operating sites	(0.3)	(0.2)
Restructuring and reorganization costs	0.7	(1.6)
Reorganization of German operating sites	(1.1)	—
Total operating exceptional income/(costs)	0.9	(1.8)

Exceptional operating items amounted to a credit of £0.9m (2011: a charge of £1.8m).

- £1.6m credit in relation to the disposal of businesses for which BSI had given warranties and indemnities to the purchasers. The Group had made provisions in respect of the potential costs of exit from certain operations. After completing the transfer of all remaining operational commitments during the year and having sought appropriate expert advice, the Group has released the provisions;
- £0.3m charge in respect of the completion of the rationalization of BSI's UK operating sites outside of the London global headquarters;
- £0.7m credit in relation to the restructuring of the UK Product Testing laboratories for which a provision was made in 2011. After a review of the project, a revised restructuring plan has been adopted resulting in the release of part of the provision; and
- £1.1m charge in relation to the reorganization of the BSI German operations, comprising merger of the two German operations, BSI Management Systems und Umweltgutachter Deutschland GmbH and EUROCAT Institute for Certification and Testing GmbH. This charge can be broken down as follows:
  - £0.6m of associated asset write-downs and exit costs; and
  - £0.5m related to employee relocation and redundancy costs.

In 2011, operating exceptional costs comprised:

- £0.2m in relation to the rationalization of BSI's UK operating sites outside of the London global headquarters; and
- £1.6m in relation to the restructuring of the UK Product Testing laboratories. These costs can be broken down as follows: £0.3m of associated asset write-downs and exit costs, £0.5m provision for demolition and site clearance of the existing Hemel Hempstead site, and £0.8m related to associated redundancies.

The corporation tax credit on operating exceptional items amounts to £0.9m comprising deductible costs and non-taxable income (2011: credit of £0.3m).

8. Employee benefit expense

	Note	2012 £m	2011 £m
Wages and salaries (including termination benefits of £1.7m, 2011: £2.3m)		96.5	97.1
Social security costs		11.4	11.2
Long Term Incentive Plan (LTIP) (release)/expense		(0.9)	0.7
Pension costs – defined contribution plans	23a	6.6	6.4
Employee benefit expense charged in arriving at operating profit	7	113.6	115.4
Net pension finance costs	11, 23bi	2.0	2.8
Total employee benefit expense charged in arriving at profit before income tax		**115.6**	**118.2**

The average number of full time equivalent individuals (including Board members) employed by the Group during the year was:

	2012 Number	2011 Number
Production, assessment, training and laboratory	1,404	1,417
Sales and distribution	494	448
Administration	898	865
Total headcount	**2,796**	**2,730**

The headcount above includes external resource of 242 (2011: 289).

9. Directors' emoluments

The emoluments of the Executive and Non-executive Board members during the year are disclosed in the Remuneration report on pages 36 to 41.

10. Operating leases

Rental payments made in the period under operating leases are disclosed in Note 7.

The Group leases office properties around the world with two of these leases considered significant. The Group Headquarters office in London is leased under a non-cancellable lease for a term of 15 years from November 2010, with regular rent reviews based on the Retail Price Index (RPI) with an appropriate cap and collar. The other significant lease relates to a UK regional office in Milton Keynes that has a non-cancellable lease for a term of 15 years from July 2011, which includes a rent free period from July 2011 to December 2014 and rental increments in line with market.

Other UK leases are up to 25 years and have less than 10 years to expiry while overseas leases are typically for 5 years or less. The income statement lease rental charge will not equate to lease payments for those leases having the benefit of lease incentives. In these cases the incentives are released to the income statement over the period of the lease in accordance with IAS 17.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012			2011		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
No later than 1 year	5.8	1.4	7.2	4.5	1.6	6.1
Later than 1 year and no later than 5 years	18.6	1.5	20.1	14.7	2.6	17.3
Later than 5 years	24.0	—	24.0	27.8	—	27.8
Minimum lease payments	**48.4**	**2.9**	**51.3**	**47.0**	**4.2**	**51.2**

A number of leased properties in the UK have been sub-let by the Group. Annual income from sub-leases in the period was £0.5m (2011: £0.5m). The Group has recognized a provision in respect of any surplus of sub-let properties (see Note 22). The future aggregate minimum sub-lease payments expected to be received under non-cancellable operating sub-leases at the balance sheet date are as follows:

Land and buildings	2012 £m	2011 £m
No later than 1 year	0.5	0.5
Later than 1 year and no later than 5 years	1.0	1.5
Later than 5 years	—	—
Minimum sub-lease receipts	**1.5**	**2.0**

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

11. Finance income and costs

	2012 £m	2011 £m
Bank interest receivable on cash and short term deposits	0.6	0.2
Finance income	**0.6**	**0.2**
Pension scheme interest cost less expected return on pension scheme plan assets (Note 8 and Note 23bi)	(2.0)	(2.8)
Other finance cost	—	(0.1)
Finance costs	**(2.0)**	**(2.9)**

12. Income tax expense

	2012 £m	2011 £m
Current tax		
– UK tax current year	1.0	1.0
– UK tax prior years	0.6	—
– Foreign tax current year	2.4	2.8
– Foreign tax prior years	0.2	0.1
Total current tax	**4.2**	**3.9**
Deferred tax (Note 15)		
– Origination and reversal of temporary differences	5.1	4.1
– Prior year deferred tax adjustments	0.3	—
– Impact of change in UK tax rate	(1.4)	(1.2)
Total deferred tax	**4.0**	**2.9**
Total income tax expense	**8.2**	**6.8**

The tax on the Group's profit before tax is higher (2011: higher) than the theoretical amount that would arise using the weighted average UK statutory tax rate of 24.5% (2011: 26.5%) applicable to profits of the consolidated entities as follows:

	2012 £m	2011 £m
Profit before income tax	31.5	24.2
Tax calculated at the weighted average UK statutory tax rate of 24.5% (2011: 26.5%)	7.7	6.4
Effects of:		
– Expenses not deductible for tax purposes/tax losses for which no deferred income tax asset was recognized	0.5	0.7
– Income not subject to tax	(0.8)	—
– Higher tax rates on overseas earnings	0.7	0.5
Adjustments to tax charge in respect of previous periods:		
– UK	(0.6)	(0.9)
– Foreign	0.7	0.1
Total income tax expense	**8.2**	**6.8**

The Group effective tax rate (ETR) on profits before tax and goodwill impairment for the year is 26.0% (2011: 28.1%). The ETR at 26.0% comprises a current year tax charge of 25.7% and a net prior year tax charge of 0.3% arising from a 4.3% credit impact on corporation and deferred tax of the reduction in the UK corporation tax rate (from 25% to 23%) and a charge of 4.6% comprising the partial de-recognition of accumulated foreign tax losses of 1.9% and net under-provided UK and foreign tax of 2.7%.

The ETR for the Group's underlying business operations for the current year is 28.6% (2011: 32.5%), after removing the tax impact on the exceptional items of 2.9% credit and the prior year tax charge of 0.3%.

The ETR at 26.0% is further reconciled from the UK statutory tax rate of 24.5% (a blended tax rate of 26% applicable in the period to 31 March 2012, reduced to 24% through the remaining period to 31 December 2012) by additional higher overseas Group taxes of 2.2% (e.g. USA 39%, Japan 42% statutory tax rates), the prior years' tax charge of 0.3% and the net ETR decrease of 1.0% for Group tax permanent and temporary differences.

The Group's underlying current period ETR is targeted to continue to reduce with long-term management to the UK statutory rate of 24%.

The Budget announced by the Chancellor in March 2012 (the 'March 2012 Budget') included changes to the main rates of tax for UK companies. The main rate of corporation tax will decrease from 24% to 23% from 1 April 2013.

This amendment is included in the Finance Bill 2012 that received Royal Assent on 17 July 2012. Therefore, the decrease in tax rate to 23% was substantively enacted for the purposes of IAS 12 (or FRS 19) on 17 July 2012. As such, these step changes in the UK tax rate from 26%, to 24% in April 2012 and then 23% in April 2013 are included in these financial statements.

The Chancellor's Autumn Statement issued on 5 December 2012 proposed further reductions in the main rate of corporation tax from 23% in April 2013 to 21% in April 2014. The overall effect of this further change from 23% to 21%, if these applied to the deferred tax balance at 31 December 2012, would be to reduce the net Group deferred tax asset by approximately £0.9m to be recognized in 2013.

13. Property, plant and equipment

	Land and buildings				
	Freehold £m	Short leasehold improvements £m	Assets under construction £m	Plant, machinery and office equipment £m	Total £m
Cost					
At 1 January 2011	8.1	3.7	0.9	15.7	28.4
Additions	—	0.1	5.2	0.6	5.9
Disposals	(0.2)	(0.9)	—	(3.7)	(4.8)
Reclassifications	—	3.1	(5.6)	2.5	—
Reclassifications to computer software (Note 14)	—	—	(0.2)	—	(0.2)
Exchange differences	—	—	—	(0.2)	(0.2)
At 31 December 2011	7.9	6.0	0.3	14.9	29.1
Additions	—	0.3	1.5	1.2	3.0
Disposals	—	—	—	(1.1)	(1.1)
Reclassifications	—	—	(0.8)	0.8	—
Exchange differences	—	—	—	(0.1)	(0.1)
At 31 December 2012	7.9	6.3	1.0	15.7	30.9
Accumulated depreciation and impairment					
At 1 January 2011	(6.5)	(2.3)	—	(11.9)	(20.7)
Charge for the year (Note 7)	(0.1)	(0.5)	—	(1.9)	(2.5)
Impairment loss (Note 7)	—	—	—	(0.3)	(0.3)
Disposals	0.1	0.8	—	3.8	4.7
Exchange differences	—	—	—	0.1	0.1
At 31 December 2011	(6.5)	(2.0)	—	(10.2)	(18.7)
Charge for the year (Note 7)	—	(0.6)	—	(1.9)	(2.5)
Impairment loss reversal (Note 7)	—	—	—	0.2	0.2
Disposals	—	—	—	0.9	0.9
Exchange differences	—	—	—	0.1	0.1
At 31 December 2012	(6.5)	(2.6)	—	(10.9)	(20.0)
Net book value at 31 December 2012	1.4	3.7	1.0	4.8	10.9
Net book value at 31 December 2011	1.4	4.0	0.3	4.7	10.4

Depreciation charges are included within administrative expenses in the income statement. Depreciation is not charged on assets under construction.

Capital commitments in respect of property, plant and equipment

Capital expenditure of £0.2m (2011: £0.5m) has been contracted for but not provided in the financial statements.

14. Intangible assets

		Computer software				
	Goodwill £m	Externally acquired £m	Internally generated £m	Customer relationships and intellectual property £m	Internally generated product development costs £m	Total £m
Cost						
At 1 January 2011	32.6	17.2	7.8	6.0	1.0	64.6
Additions	—	1.8	3.6	0.3	0.2	5.9
Disposal	—	(8.3)	(0.1)	—	—	(8.4)
Reclassifications	—	—	—	(0.3)	—	(0.3)
Reclassifications from property, plant and equipment (Note 13)	—	0.2	—	—	—	0.2
Exchange differences	0.2	—	—	—	—	0.2
At 31 December 2011	32.8	10.9	11.3	6.0	1.2	62.2
Additions	—	1.7	3.6	—	0.6	5.9
Disposal	—	(0.1)	—	—	—	(0.1)
Exchange differences	(0.2)	(0.1)	—	(0.2)	—	(0.5)
At 31 December 2012	32.6	12.4	14.9	5.8	1.8	67.5

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

14. Intangible assets continued

	Goodwill £m	Computer software: Externally acquired £m	Computer software: Internally generated £m	Customer relationships and intellectual property £m	Internally generated product development costs £m	Total £m
Accumulated amortization and impairment						
At 1 January 2011	(6.4)	(13.3)	(2.3)	(3.4)	(0.7)	(26.1)
Charge for the year (Note 7)	—	(1.5)	(0.8)	(0.8)	(0.1)	(3.2)
Disposals	—	8.3	0.1	—	—	8.4
Reclassifications	—	—	—	0.3	—	0.3
At 31 December 2011	(6.4)	(6.5)	(3.0)	(3.9)	(0.8)	(20.6)
Charge for the year (Note 7)	—	(1.6)	(1.2)	(0.4)	(0.2)	(3.4)
Disposals	—	0.1	—	—	—	0.1
Exchange differences	—	0.1	—	—	—	0.1
At 31 December 2012	(6.4)	(7.9)	(4.2)	(4.3)	(1.0)	(23.8)
Net book value at 31 December 2012	26.2	4.5	10.7	1.5	0.8	43.7
Net book value at 31 December 2011	26.4	4.4	8.3	2.1	0.4	41.6

Customer relationships and intellectual property consist of intangible assets externally acquired. Capitalized training course development costs are captured under internally generated software development costs.

Amortization charges are included within administrative expenses in the income statement. Impairment losses of intangible assets are included in the exceptional operating costs in the income statement.

Capital commitments in respect of computer software

Capital expenditure of £0.4m (2011: £0.4m) has been contracted for but not provided in the financial statements.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment.

An operating segment-level summary of the goodwill allocation is presented below:

	EMEA £m	Americas £m	Asia Pacific £m	Standards £m	Total £m
2012	7.5	4.6	8.8	5.3	26.2
2011	7.7	4.6	8.8	5.3	26.4

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections covering 3 years, based on financial budgets approved by the Board and strategic plans unless more specific and recent projections exist. Cash flows beyond the 3 year period are extrapolated using average growth rates of the past 10 years for the countries in which the CGUs operate. These growth rates are obtained from the International Monetary Fund's World Economic Outlook Database and the average growth rates range between 0.3% and 10.6% (2011: 0.2% and 10.1%). Applying a zero growth rate on the cash flows beyond the 3 year period would not result in any impairment on the Group's CGUs (2011: nil).

Discount rates applied to the cash flow forecasts are pre-tax and derived using the capital asset pricing model and vary from 8.5% to 15.9% (2011: 9.1% to 20.0%) across the CGUs. The pre-tax discount rates would need to increase by 3.7% (2011: 1.5%) before any of the Group's CGUs suffer any impairment. If the pre-tax discount rates were 4.0% higher (2011: 2.5% higher), the Group would have an impairment against intangible assets of £0.1m (2011: £0.2m).

15. Deferred tax

	2012 £m	2011 £m
Deferred tax assets:		
– To be recovered after more than 12 months	12.7	17.4
– To be recovered within 12 months	4.2	2.2
Total deferred tax assets	16.9	19.6
Deferred tax liabilities:		
– To be incurred after more than 12 months	(1.6)	(1.7)
– To be incurred within 12 months	(0.3)	(0.3)
Total deferred tax liabilities	(1.9)	(2.0)
Net deferred tax assets	15.0	17.6

15. Deferred tax continued

Gross movement on the deferred tax account

	2012 £m	2011 £m
At 1 January	17.6	18.7
Income statement tax charged (Note 12)	(4.0)	(2.9)
Tax credited to equity relating to retirement benefit obligations	1.7	1.9
Exchange differences	(0.3)	(0.1)
At 31 December	**15.0**	**17.6**

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Temporary differences £m	Total £m
At 1 January 2011	(2.2)	(2.2)
Credited to the income statement	0.2	0.2
At 31 December 2011	**(2.0)**	**(2.0)**
Credited to the income statement	0.1	0.1
At 31 December 2012	**(1.9)**	**(1.9)**

Deferred tax assets	Accelerated capital allowances £m	Pension £m	Losses £m	Other temporary differences £m	Total £m
At 1 January 2011	0.5	15.7	1.9	2.8	20.9
(Charged)/credited to the income statement	(0.5)	(2.8)	(0.2)	0.4	(3.1)
Credited directly to equity	—	1.9	—	—	1.9
Exchange differences	—	—	—	(0.1)	(0.1)
At 31 December 2011	**—**	**14.8**	**1.7**	**3.1**	**19.6**
Credited/(charged) to the income statement	0.3	(2.6)	(0.8)	(1.0)	(4.1)
Credited directly to equity	—	1.7	—	—	1.7
Exchange differences	—	—	—	(0.3)	(0.3)
At 31 December 2012	**0.3**	**13.9**	**0.9**	**1.8**	**16.9**

The deferred tax credited directly to equity during the period was £1.7m (2011: credit of £1.9m), which related to the retirement benefit obligation.

Deferred tax assets are recognized for tax carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of £0.6m (2011: nil) in respect of losses amounting to £2.0m (2011: nil) that can be carried forward against future taxable income.

16. Financial instruments

a. Financial instruments by category

At 31 December 2012	Loans and receivables £m
Assets as per balance sheet	
Trade and other receivables excluding prepayments	49.2
Cash and cash equivalents	41.0
Total	**90.2**

	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet	
Trade and other payables excluding non-financial liabilities	32.8
Total	**32.8**

16. Financial instruments continued

a. Financial instruments by category continued

At 31 December 2011	Loans and receivables £m
Assets as per balance sheet	
Trade and other receivables excluding prepayments	46.8
Cash and cash equivalents	39.7
Total	86.5

	Derivatives used for hedging £m	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet		
Trade and other payables excluding non-financial liabilities	—	34.3
Derivative financial instruments	0.1	—
Total	0.1	34.3

b. Credit quality of financial assets

The Directors consider the credit risk associated with fully performing financial assets to be immaterial to the Group.

17. Inventories

	2012 £m	2011 £m
Work in progress	—	0.1
Consumables	—	0.1
Total inventories	—	0.2

18. Trade and other receivables

	2012 £m	2011 £m
Trade receivables	37.2	36.5
Less: Provision for impairment of trade receivables	(1.0)	(1.1)
Trade receivables – net	36.2	35.4
Other receivables	5.8	4.3
Prepayments	5.4	4.4
Accrued income	7.2	7.1
Total trade and other receivables	54.6	51.2
Less non-current portion:		
Other receivables	(1.5)	—
Current portion of trade and other receivables	53.1	51.2

Trade receivables are non-interest bearing and are generally on 30 – 60 days (2011: 30 – 60 days) terms. Other receivables are non-interest bearing and are generally on 30 – 60 days (2011: 30 – 60 days) terms.

As the majority of the receivables are short term in nature, the fair values of trade and other receivables approximate their carrying value as the impact of discounting is not significant.

The provision for impairment is against all receivables overdue by 1 year, and any specific items identified. As of 31 December 2012, trade receivables of £14.6m (2011: £13.1m) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of net trade receivables is as follows:

	2012 £m	2011 £m
Current (not due)	21.6	22.3
< 1 month	9.1	8.4
1 – 3 months	4.3	3.4
3 – 5 months	0.7	0.7
> 5 months	0.5	0.6
Trade receivables – net	36.2	35.4

18. Trade and other receivables continued

As of 31 December 2012, trade receivables of £1.0m (2011: £1.1m) were impaired and fully provided for. The individually impaired receivables mainly relate to customers in unexpectedly difficult economic situations. The ageing analysis of these receivables is as follows:

	2012 £m	2011 £m
< 1 month	—	0.1
1 – 3 months	0.1	—
3 – 5 months	0.2	0.1
> 5 months	0.7	0.9
Provision for impairment of trade receivables	1.0	1.1

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2012 £m	2011 £m
British Pounds Sterling	21.5	21.0
US Dollars	11.2	8.5
Euros	6.1	6.4
Japanese Yen	2.5	3.5
Chinese Renminbi	2.1	1.2
Other currencies	11.2	10.6
Total trade and other receivables	54.6	51.2

Movements on the Group provision for impairment of trade receivables are as follows:

	2012 £m	2011 £m
At 1 January	1.1	1.0
Provision for impaired receivables	0.3	0.8
Receivables written off during the year as uncollectable	(0.4)	(0.4)
Unused amounts reversed	—	(0.3)
At 31 December	1.0	1.1

The creation and release of the provision for impaired receivables have been included within administrative expenses in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold collateral as security.

19. Derivative financial instruments

	2012 £m	2011 £m
Current liabilities		
Forward foreign exchange contracts – cash flow hedges	—	(0.1)

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2012 were £1.6m (2011: £2.4m).

The fair value of forward foreign currency contracts is determined using forward foreign exchange market rates at the balance sheet date. The fair value measurement adopted is categorized as Level 2 (2011: Level 2) within the fair value measurement hierarchy set out in IFRS 7.

All contracts are current as all will mature within one year.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets or liability in the balance sheet.

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

20. Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	15.7	39.7
Short term deposits	25.3	—
Total cash and cash equivalents	**41.0**	**39.7**

No bank overdraft facilities were in use at 31 December 2012 (2011: £nil). The balance above corresponds to cash and cash equivalents for the purposes of the cash flow statement.

The fair value of cash and short term deposits is £41.0m (2011: £39.7m). The maximum exposure to credit risk at the reporting date is the fair value of cash and short term deposits mentioned above.

The interest rate risk profile and currency profile of cash and short term deposits are:

	2012				2011			
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Currency								
British Pounds Sterling	25.3	1.1	5.0	31.4	19.4	1.3	2.7	23.4
US Dollars	—	0.4	0.9	1.3	—	6.7	0.6	7.3
Euros	—	—	0.8	0.8	—	0.4	1.2	1.6
Japanese Yen	0.2	—	0.6	0.8	0.4	—	0.8	1.2
Chinese Renminbi	—	2.4	—	2.4	—	2.0	—	2.0
Other currencies	0.1	1.7	2.5	4.3	0.3	1.5	2.4	4.2
Total	**25.6**	**5.6**	**9.8**	**41.0**	**20.1**	**11.9**	**7.7**	**39.7**

21. Trade and other payables

	2012 £m	2011 £m
Trade payables	4.5	5.6
VAT and sales taxes	2.6	2.7
Other taxes and social security	3.2	3.1
Other payables	3.3	2.0
Accruals	19.2	20.9
Deferred income	20.3	19.4
Total trade and other payables	**53.1**	**53.7**
Less non-current portion:		
Other payables	(1.3)	—
Deferred income	(0.9)	(0.6)
Current portion of trade and other payables	**50.9**	**53.1**

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2012 £m	2011 £m
British Pounds Sterling	32.5	32.1
US Dollars	4.4	4.2
Euros	4.6	5.1
Japanese Yen	3.1	4.2
Chinese Renminbi	2.6	2.3
Other currencies	5.9	5.8
Total trade and other payables	**53.1**	**53.7**

Trade payables are non-interest bearing and are generally on 30 – 60 days (2011: 30 – 60 days) terms. Other payables are non-interest bearing and are generally on 30 – 90 days (2011: 30 – 90 days) terms.

As majority of the payables are short term in nature, the fair values of trade and other payables approximate their carrying value as the impact of discounting is not significant.

22. Provisions for liabilities and charges

	Property provisions £m	Other provisions £m	Total £m
At 1 January 2011	0.3	3.2	3.5
Charged to the income statement	1.1	0.8	1.9
Utilization	—	(1.2)	(1.2)
At 31 December 2011	1.4	2.8	4.2
Charged to the income statement	0.4	0.3	0.7
Utilization	(0.1)	(0.7)	(0.8)
Released	(0.4)	(2.0)	(2.4)
At 31 December 2012	1.3	0.4	1.7

The property provisions are held against dilapidations and potential property exposures relating to surplus or sub-let properties. The Group has used either the known position or a best estimate of the Group's potential exposure to calculate the potential cost to BSI Group over the remaining lease periods.

Other provisions in the prior year relate to anticipated costs relating to the Group's liability for discontinued operations and these provisions were released during the year. The provisions for the current year relate to anticipated costs relating to the Group's liability for restructuring the UK Product Testing laboratories and German operating sites.

Provisions are recognized at the best estimate of the expenditure required to settle the Group's liability.

Analysis of total provisions:

	2012 £m	2011 £m
Non-current	1.5	2.9
Current	0.2	1.3
Total provisions for liabilities and charges	1.7	4.2

Cash outflows associated with these provisions are uncertain but the majority are expected to materialize within three years. Given the uncertainty over timing of the eventual outflows they have not been discounted.

23. Retirement benefit obligations

The Group operates the following retirement benefit schemes:

a. Defined contribution scheme

Following the closure of the defined benefit final salary scheme to new entrants, the Group offers a Group Personal Pension plan to all new UK employees. The costs for the period were £4.9m (2011: £4.7m).

In addition, a number of other money purchase schemes are operated in overseas companies, with costs for the period totalling £1.7m (2011: £1.7m).

b. Defined benefit schemes

i. UK defined benefit scheme

The Group operates a UK pension scheme which provides benefits based on final pensionable salary and service up to 30 April 2010 (the date the scheme closed to the accrual of benefits). The assets of the scheme are held in a separate trustee administered fund. The scheme is closed to new entrants.

A valuation of the final salary scheme was carried out under the Statutory Funding Objective as at 31 March 2010. This revealed an ongoing funding level of 76%. The Group subsequently agreed a schedule of contributions with the Trustees which was put in place from 1 April 2010. It requires contributions from the Group to improve the funding level of the scheme and to cover the expenses of running the scheme. The Group agreed to pay additional contributions of £108.8m over the period 1 April 2010 to December 2019. Contributions in respect of future service benefits ceased on 30 April 2010. A further valuation of the scheme will be undertaken as at 31 March 2013.

The Group paid a total of £18.0m in contributions to the scheme during 2012 (2011: £17.0m).

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

23. Retirement benefit obligations continued

b. Defined benefit schemes continued

i. UK defined benefit scheme continued

Balance sheet

The amounts recognized in the balance sheet are determined as follows:

	2012 £m	2011 £m
Present value of defined benefit obligations	(329.9)	(306.8)
Fair value of plan assets	270.0	247.7
Net liability in the balance sheet	(59.9)	(59.1)

Changes in the present value of the defined benefit obligation are as follows:

	2012 £m	2011 £m
Opening defined benefit obligation	306.8	289.4
Interest cost	14.6	15.3
Actuarial losses	22.0	12.2
Benefits paid	(13.5)	(10.1)
Closing defined benefit obligation	329.9	306.8

Changes in the fair value of plan assets are as follows:

	2012 £m	2011 £m
Opening fair value of plan assets	247.7	231.4
Expected return on plan assets	12.6	12.5
Actuarial gains/(losses)	5.2	(3.1)
Contributions by employer	18.0	17.0
Benefits paid	(13.5)	(10.1)
Closing fair value of plan assets	270.0	247.7

The actual return on plan assets was £17.8m (2011: £9.4m).

Income statement

The amounts recognized in the income statement are as follows:

	2012 £m	2011 £m
Amounts in net finance costs (Note 8 and Note 11)		
Interest cost	14.6	15.3
Expected return on plan assets	(12.6)	(12.5)
Total amounts charged to the income statement	2.0	2.8

Statement of comprehensive income

	2012 £m	2011 £m
Net actuarial losses recognized in the year	(16.8)	(15.3)

23. Retirement benefit obligations continued

b. Defined benefit schemes continued

i. UK defined benefit scheme continued

Assumptions

The principal actuarial assumptions used are as follows:

	2012 % p.a.	2011 % p.a.
Rate of increase in salaries	4.00	3.95
Rate of increase of pensions in payment:		
– Pre April 1997 and post April 2005 excess over GMP pensions	3.00	3.00
– Post April 1997 and pre April 2005 excess over GMP pensions	3.25	3.20
Rate of revaluation of deferred pensions in excess of the GMP	2.10	1.75
Discount rate	4.50	4.85
Inflation assumption – RPI	3.00	2.95
Inflation assumption – CPI	2.10	1.75

Life expectancy at age 65 for a member currently aged 45 is 24.9 years (men) or 26.1 years (woman). Life expectancy for a member currently aged 65 is 23.5 years (men) or 24.6 years (woman).

Plan assets are comprised as follows:

	Long term rate of return expected at 31 Dec 2012	Value at 31 Dec 2012 £m		Long term rate of return expected at 31 Dec 2011	Value at 31 Dec 2011 £m	
Diversified Growth Fund	8.10%	61.9	23%	6.55%	105.7	42%
Asset Allocation Fund	6.75%	50.8	19%	—	—	—
Bonds	3.90%	51.0	19%	4.50%	43.9	18%
Cash	0.55%	15.4	5%	1.10%	9.3	4%
Metlife policy	4.50%	90.9	34%	4.85%	88.8	36%
Weighted average return	5.41%			5.37%		
Total fair value of plan assets		270.0	100%		247.7	100%

The expected rate of return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
As at 31 December					
Present value of defined benefit obligation	(329.9)	(306.8)	(289.4)	(305.5)	(257.7)
Fair value of plan assets	270.0	247.7	231.4	202.8	181.9
Deficit	(59.9)	(59.1)	(58.0)	(102.7)	(75.8)
Experience adjustments on plan liabilities	0.2	(0.1)	31.4	(2.8)	0.3
Experience adjustments on plan assets	5.3	(3.1)	11.7	6.8	(35.0)

Expected contributions to retirement benefit plans for the year ending 31 December 2013 are £5.0m (2012: £3.0m).

ii. Other defined benefit schemes

The Group operates defined benefit pension schemes in Taiwan and Germany which provide benefits based on final pensionable salary and service. The net liability recognized in the balance sheet at 31 December 2012 is £0.4m. In the prior year, the balance of £0.3m was included in Other Payables.

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

24. Reconciliation of movements in reserves

	Retained earnings £m	Translation reserve £m	Total £m
At 1 January 2011	34.7	5.0	39.7
Profit for the year	17.4	—	17.4
Actuarial losses related to retirement benefit obligations (net of deferred tax)	(13.4)	—	(13.4)
Cash flow hedges	(0.2)	—	(0.2)
Translation of overseas entities	—	(0.5)	(0.5)
At 31 December 2011	38.5	4.5	43.0
Profit for the year	23.3	—	23.3
Actuarial losses related to retirement benefit obligations (net of deferred tax)	(15.1)	—	(15.1)
Cash flow hedges	0.1	—	0.1
Translation of overseas entities	—	(1.4)	(1.4)
At 31 December 2012	46.8	3.1	49.9

Retained earnings

The retained earnings are used to record the changes in retained profit/(loss), actuarial gains/(losses) relating to retirement benefit obligations and cash flow hedges.

Translation reserve

The translation reserve is used to record the foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

25. Contingent liabilities

In the normal course of its business the Group faces legal actions and claims. Based on legal advice and taking into account the availability of insurance and provisions, the Board does not expect these legal actions or claims to have a significant impact upon the Group.

In relation to the acquisition or establishment of new businesses in overseas jurisdictions, the Group follows the requirements of local laws, regulations and conventions in the relevant jurisdictions. These may require the creation of structures or arrangements with vendors or local partners or other third parties whereby the Group assumes contingent liabilities to such parties which may or may not materialize. Taking into account experience to date, the Board has made provisions where appropriate.

In relation to the disposal of businesses the Group has given warranties and indemnities to the purchasers. In the light of local legal and taxation advice, experience to date, availability of insurance, and provisions, the Board does not expect these warranties and indemnities to have a significant impact on the Group.

In the normal course of its business, the Group from time to time provides advance payment guarantees, performance bonds and other bonds in connection with their activities. Taking into account experience to date and the availability of provisions, the Board does not expect these bonds and guarantees to have a significant impact on the Group.

The Group has historically occupied leasehold properties which it has subsequently assigned or sub-leased and there is a contingent risk that if in certain circumstances the assignees or sub-lessees default, certain liabilities under the lease may revert to the Group. The number of incidents when such leases survive is small and in the light of experience to date and the availability of provisions, the Board does not expect these leases to have a significant impact on the Group.

26. Related party transactions

Transactions with related parties have been determined in accordance with IAS 24 and are disclosed below:

a. Pension scheme trustee

Transactions with the pension scheme trustee are disclosed in Note 23 Retirement Benefit Obligations.

b. Key management

Key management of the Group includes Directors (executive and non-executive) and other members of the Executive Committee. Emoluments of the directors are disclosed in the Remuneration report on pages 36 to 41. Emoluments paid to other members of the Executive Committee for employee services are shown in the table below:

	2012 £m	2011 £m
Salaries and short-term benefits	2.0	2.4
Terminations	0.4	0.1
Other long-term benefits	—	0.1
Total emoluments	2.4	2.6

27. Interests in Group undertakings

Name	Country of incorporation or registration	Proportion held*	Activity
British Standards Institution Group Iberia SAU	Spain	100%	Business services
BSI Advisory Services BV	Netherlands	100%	Business services
BSI America Professional Services Inc	USA	100%	Business services
BSI Assurance UK Limited	England	100%	Business services
BSI Brasil	Brazil	100%	Business services
BSI Brasil Sistemas de Gestao Ltda	Brazil	100%	Business services
BSI British Standards Ltd Beijing Representative Office	China	100%	Business services
BSI Group (Australia and New Zealand) Pty Ltd	Australia	100%	Business services
BSI Group (Thailand) Co., Ltd	Thailand	100%	Business services
BSI Group America Inc	USA	100%	Business services
BSI Group Assurance Limited	England	100%	Holding company
BSI Group Australia Holdings Pty Ltd	Australia	100%	Business services
BSI Group Canada Inc	Canada	100%	Business services
BSI Group Deutschland GmbH (formerly BSI Management Systems und Umweltgutachter Deutschland GmbH)	Germany	100%	Business services
BSI Group Eurasia Certification Services Co. Ltd	Turkey	100%	Business services
BSI Group France Sarl	France	98%	Business services
BSI Group Holdings The Netherlands BV	Netherlands	100%	Business services
BSI Group India Private Ltd	India	100%	Business services
BSI Group Italia SRL	Italy	100%	Business services
BSI Group Japan KK	Japan	100%	Business services
BSI Group Korea Ltd	Korea	100%	Business services
BSI Group Learning Beijing Limited	China	100%	Business services
BSI Group Mexico S dr RL de CV	Mexico	100%	Business services
BSI Group Polska Spolka z.o.o.	Poland	100%	Business services
BSI Group Singapore Pte Ltd	Singapore	100%	Business services
BSI Group The Netherlands BV	Netherlands	100%	Business services
BSI Healthcare Saudi Arabia	Saudi Arabia	100%	Business services
BSI Limited	England	100%	Holding company
BSI Management Systems Certification (Beijing) Co., Ltd	China	100%	Business services
BSI Management Systems CIS LLC	Russia	100%	Business services
BSI Management Systems Limited	England	100%	Business services
BSI Pacific Ltd	Hong Kong	100%	Business services
BSI Professional Services EMEA Limited	England	100%	Business services
BSI Professional Services Holdings Limited	England	100%	Holding company
BSI Services Malaysia Sdn. Bhd.	Malaysia	100%	Business services
BSI Standards Limited	England	100%	Business services
BSI Vietnam Co., Ltd	Vietnam	100%	Business services
Entropy International Canada Inc	Canada	100%	Business services
Entropy International Limited	England	100%	Business services
PT BSI Group Indonesia	Indonesia	100%	Business services

All the above significant subsidiaries are controlled by the Group and are accounted for through acquisition accounting.

* Percentage of ordinary share capital

Independent auditors' report – Parent company financial statements

to the Board of Directors of The British Standards Institution

We have audited the parent company financial statements of The British Standards Institution for the year ended 31 December 2012 which comprise the Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with paragraph 21 of The British Standards Institution's Royal Charter and Bye-laws and applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's Board of Directors as a body in accordance with The British Standards Institution's Royal Charter and Bye-laws and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with The British Standards Institution's Royal Charter and Bye-laws and the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

At the request of the directors we have also audited the part of the Directors' Remuneration Report that is described as having been audited. In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Other matter

We have reported separately on the consolidated financial statements of The British Standards Institution for the year ended 31 December 2012.

Kate Wolstenholme (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 March 2013

Financial statements

Parent company balance sheet

as at 31 December 2012

	Note	2012 £m	2011 £m
Fixed assets			
Intangible assets	3	—	4.2
Tangible assets	4	12.8	20.1
Investment in subsidiaries	5	39.9	40.3
		52.7	64.6
Current assets			
Stocks	6	—	0.2
Debtors	7	46.3	23.1
Cash at bank and in hand		31.6	23.8
		77.9	47.1
Creditors – amounts falling due within one year	8	(57.8)	(43.8)
Net current assets		20.1	3.3
Total assets less current liabilities		72.8	67.9
Provisions for liabilities	9	(0.8)	(1.9)
Creditors – amounts falling due after more than one year	10	—	(0.6)
Net assets excluding defined benefit pension scheme liability		72.0	65.4
Deferred benefit scheme pension liability, net of deferred tax	11	(46.1)	(44.3)
Net assets		25.9	21.1
Profit and loss account, representing reserves	14	25.9	21.1

The accompanying notes on pages 80 to 88 form an integral part of the parent company financial statements.

The financial statements on pages 79 to 88 were approved by the Board of Directors on 21 March 2013 and were signed on its behalf by:

Craig Smith
Group Finance Director
21 March 2013

Notes to the parent company financial statements

for the year ended 31 December 2012

1. Principal accounting policies

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

As used in the financial statements and related notes, the term 'Company' refers to The British Standards Institution. The Directors have confirmed that they believe that the Company's accounting policies are the most appropriate for the purposes of providing a true and fair view of the Company's results and state of affairs and have been consistently applied except where indicated below.

a. Basis of preparation

These financial statements have been prepared on a going concern basis and in accordance with applicable Accounting Standards in the United Kingdom (UK GAAP). They have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies Act 2006.

The Company's financial statements are presented in British Pounds Sterling (£) and all values are rounded to the nearest £100,000 except when otherwise indicated.

i. Profit and loss account

In accordance with the concession granted under Section 408 of the Companies Act 2006, the profit and loss account of The British Standards Institution has not been separately presented in these financial statements. The retained profit for the year is shown in Note 14.

ii. Cash flow statement

In accordance with the exemption under FRS 1 (Revised 1996) Cash Flow Statements, the Company's cash flow statement has not been separately presented in these financial statements.

b. Turnover and cost of sales

Turnover, which excludes value added tax, represents the value of goods and services supplied and subscription income. Where turnover relates to defined service periods, it is recognized in the profit and loss account over the period to which it relates.

Where the Company makes payments to suppliers for services to be provided over future periods, the value of the future services is deferred over the period to which the service relates.

Significant categories of turnover and the recognition criteria for each are detailed below:

i. Sales of goods

In 2011, the Company sold standards and other publications in hard copy and in electronic formats. Sales of goods are recognized when the Company sells a product to the customer.

ii. Rendering of services

Membership, subscriptions and annual management fees provide varying levels of service, which can include access to information services, access to published standards information, newsletters, advisory services, discounts on products and invitations to events and seminars. Revenue is spread over the life of the arrangement, which is normally one year but can vary depending on the level of service and specific agreements with customers.

In 2011, the Company provided a variety of assessment and certification services, consultancy services and training services. Turnover value was recognized as the services were performed.

iii. Copyright and royalty income

The Company recognizes copyright and royalty income on an accrual basis or when it is advised by the customer, generally on a monthly basis. Where there are licence arrangements, fees are spread over the life of the licence.

c. Interest income

Interest income is recognized in the profit and loss account on an accrual basis.

d. Dividend income

Dividend income is recognized in the profit and loss account when it is receivable.

e. Rental income

The Company sub-lets a number of leased properties in the UK. Rental income is recognized on an accrual basis in accordance with the relevant agreements.

f. Foreign currencies

Transactions denominated in foreign currencies are translated into Sterling at contracted rates or, where no contract exists at average monthly rates. Foreign exchange gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which are held at the year end, are taken to the profit and loss account.

g. Financial instruments

The Company does not hold or issue derivative financial instruments for trading purposes. Derivatives used include currency swaps, interest rate swaps and forward currency contracts.

1. Principal accounting policies continued

h. Finance and operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements that transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

i. Investment in Group undertakings

Investments are stated at cost less any provision for impairment in value. Impairment testing is conducted whenever indicators of impairment are present.

j. Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Freehold land is not depreciated. Depreciation on other assets is calculated on a straight-line basis so as to write off the cost of tangible fixed assets less their estimated residual values, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold buildings	5%
Short leasehold improvements	Over the unexpired term of the lease
Plant, machinery and office equipment	10% – 33%

The Company selects these depreciation rates carefully and reviews them regularly, to take account of any changes in circumstances. The principal factors that the Company takes into account are the expected rate of technological developments and the intensity at which the assets are expected to be used.

k. Intangible assets

i. Goodwill

Goodwill arising on acquisitions is capitalized and amortized over the period which the Directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets with a maximum period of 20 years. The Directors take into account the nature, age and stability of the industry in which the business operates.

The Directors evaluate the carrying value of goodwill in each financial year to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount and when it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

ii. Intellectual property

Intellectual property is capitalized based on acquisition cost and amortized on a straight-line basis over its estimated useful economic life. The estimated useful life of this intangible asset is 10 years.

l. Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation is probable and can be reliably estimated. Provision for legal claims, onerous lease and other onerous commitments are recognized at the best estimate of the expenditure required to settle the Company's liability. Where liabilities are expected to be discharged over a number of years, the provisions have been discounted using an appropriate risk free rate.

m. Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Company's control or are present obligations arising from past events that are not recognized as it is not probable a transfer of economic benefits will occur or the amount cannot be measured with sufficient certainty. The Company reviews its obligations regularly.

n. Retirement benefits

i. Defined benefit pension schemes

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Any increase in the present value of the liabilities of the Company's defined benefit pension schemes expected to arise from employee service in the year is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in interest payable. Actuarial gains and losses are recognized in reserves. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognized on the balance sheet net of related deferred tax.

Notes to the parent company financial statements continued

for the year ended 31 December 2012

1. Principal accounting policies continued

n. Retirement benefits continued

ii. Defined contribution pension schemes

Amounts charged to operating profit represent the contributions payable to the schemes in the year.

o. Deferred taxation

Deferred tax is fully provided in respect of timing differences that have originated but not reversed by the balance sheet date. These are based on average tax rates that are expected to apply at the time of the reversal, which will be the rates that have either been enacted, or substantially enacted, by the balance sheet date. No deferred tax is provided on permanent timing differences. Deferred tax assets are recognized to the extent that they are regarded as more likely than not to be recoverable. Deferred tax on un-remitted earnings of foreign subsidiaries is only provided if dividends have been accrued as receivable or there is a binding agreement to distribute past earnings in the future. Deferred tax balances are not discounted.

p. Stocks

Stocks are stated at the lower of cost and net realizable value. Cost is determined on a first in first out basis and includes transport and handling costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Where necessary, provision is made for obsolete, slow moving and defective stocks.

2. Restructure of UK operations

On 1 January 2012, the business streams and balance sheets of Assurance and part of Standards, previously accounted for within the Company, were hived down into wholly owned subsidiaries, BSI Assurance UK Limited and BSI Standards Limited, and a new subsidiary created for the purposes of a Professional Services business stream, BSI Professional Services EMEA Limited. This was implemented in order to contain operational risks and to ensure independence between the different business streams. The membership, international projects and funded activity businesses were not hived down and remain with the Company. The table below shows the breakdown of the assets and liabilities transferred to each of the new companies and the impact on the balance sheet of the Company.

	31 December 2011	1 January 2012			
	The Company £m	BSI Assurance UK Limited £m	BSI Standards Limited £m	BSI Professional Services EMEA Limited £m	The Company £m
Intangible assets	4.2	2.4	—	1.8	—
Tangible assets	20.1	6.7	3.1	—	10.3
Investments in subsidiaries	40.3	—	—	—	40.3
Current assets	47.1	12.9	5.3	—	28.9
Current liabilities	(43.8)	(9.8)	(7.7)	—	(26.3)
Long-term liabilities	(2.5)	(1.3)	—	—	(1.2)
Pension liability, net of tax	(44.3)	—	—	—	(44.3)
Purchase price (inter-company)	—	(10.9)	(0.7)	(1.8)	13.4
Net assets	21.1	—	—	—	21.1

As part of the hive down, each of the wholly owned subsidiaries has provided a guarantee and indemnity to the Trustee of the UK pension fund with respect to all obligations and liabilities of the Company to make contributions to the scheme.

3. Intangible assets

	Goodwill £m	Intellectual property £m	Total £m
Cost			
At 1 January 2012	2.6	1.9	4.5
Transfer to subsidiaries (Note 2)	(2.6)	(1.9)	(4.5)
At 31 December 2012	—	—	—
Accumulated amortization			
At 1 January 2012	(0.2)	(0.1)	(0.3)
Transfer to subsidiaries (Note 2)	0.2	0.1	0.3
At 31 December 2012	—	—	—
Net book value at 31 December 2012	—	—	—
Net book value at 31 December 2011	2.4	1.8	4.2

Goodwill on acquisitions in prior year was amortized on a straight-line basis over 20 years.

There were no impairments of intangible assets in prior year.

4. Tangible assets

	Land and buildings: Freehold £m	Land and buildings: Short leasehold improvements £m	Plant, machinery and office equipment £m	Total £m
Cost				
At 1 January 2012	3.8	5.6	31.1	40.5
Additions	—	—	4.8	4.8
Disposals	—	—	(0.3)	(0.3)
Transfer to subsidiaries (Note 2)	(3.5)	(3.2)	(14.8)	(21.5)
At 31 December 2012	0.3	2.4	20.8	23.5
Accumulated depreciation and impairment				
At 1 January 2012	(3.5)	(1.7)	(15.2)	(20.4)
Charge in the year	—	(0.3)	(1.9)	(2.2)
Disposals	—	—	0.2	0.2
Transfer to subsidiaries (Note 2)	3.5	0.2	8.0	11.7
At 31 December 2012	—	(1.8)	(8.9)	(10.7)
Net book value at 31 December 2012	0.3	0.6	11.9	12.8
Net book value at 31 December 2011	0.3	3.9	15.9	20.1

The net book value of freehold land not depreciated is £0.3 million (2011: £0.3 million).

5. Investment in subsidiaries

	2012 £m	2011 £m
Cost at 1 January	40.3	40.3
Disposals	(0.4)	—
Cost at 31 December	39.9	40.3

The Directors consider that the fair value of investments is not less than their carrying value.

A list of subsidiaries is provided in Note 27 to the consolidated financial statements.

Disposals during the year of £0.4m relates to the dissolution of a subsidiary, British Standards (Publishing) Ltd.

6. Stocks

	2012 £m	2011 £m
Work in progress	—	0.1
Consumables	—	0.1
Total stocks	—	0.2

7. Debtors

	2012 £m	2011 £m
Trade debtors	0.8	15.4
Amounts owed from subsidiaries	40.5	—
Other debtors	0.7	1.8
Prepayments and accrued income	2.6	5.6
VAT receivable	1.4	—
Deferred taxation* (Note 12)	0.3	0.3
Total debtors	46.3	23.1

* Excludes deferred tax asset on the pension liability (Note 12)

Amounts owed from subsidiaries include trade and finance amounts. The unsecured finance amounts of £15.7m have no fixed terms of repayment and are repayable on demand, but are interest bearing with the rates ranging between 2.4% – 8.8%.

Notes to the parent company financial statements continued

for the year ended 31 December 2012

8. Creditors: Amounts falling due within one year

	2012 £m	2011 £m
Trade creditors	0.9	3.2
Amounts owed to subsidiaries	42.9	9.2
Corporation tax payable	—	0.3
VAT	—	2.1
Social security and PAYE	0.8	1.9
Other creditors	0.3	0.7
Accruals	6.6	10.8
Deferred income	6.3	15.6
Creditors falling due within one year	57.8	43.8

Trade creditors are non-interest bearing and are generally on 30 – 60 days terms. Amounts owed to subsidiaries include trade and finance amount. The unsecured finance amounts of £22.2m have no fixed terms of repayment and are interest bearing with the rates ranging between 2.8% – 5.4%.

9. Provisions for liabilities

	Property provisions £m	Other provisions £m	Total £m
At 1 January 2012	1.0	0.9	1.9
Charged to profit and loss account	0.4	—	0.4
Utilized during the year	(0.1)	(0.1)	(0.2)
Transfer to subsidiaries (Note 2)	(0.5)	(0.8)	(1.3)
At 31 December 2012	0.8	—	0.8

The property provisions are held against dilapidations and potential property exposures relating to surplus or sub-let properties. The Company has used either the known position or a best estimate of the Company's potential exposure to calculate the potential cost to BSI Group over the remaining lease periods.

Details of the pension provisions are set out in Notes 11, 12 and 13 below.

Other provisions in the prior year relate to anticipated costs relating to the Company's liability for discounted operations.

10. Creditors: Amounts falling due after more than one year

	2012 £m	2011 £m
Deferred income	—	0.6

11. Defined benefit scheme pension liability (net of deferred tax)

	Pension provision £m	Deferred taxation £m	Total £m
At 1 January 2012	59.1	(14.8)	44.3
Charged/(released) to profit and loss account	2.4	(1.5)	0.9
Charged/(released) to current year reserves	16.4	(1.6)	14.8
Contributions	(18.0)	4.1	(13.9)
At 31 December 2012	59.9	(13.8)	46.1

12. Deferred taxation

The amounts of net deferred taxation assets recognized are set out below:

	2012 £m	2011 £m
Provision for deferred tax comprises:		
Accelerated capital allowances	0.3	(0.2)
Short term timing differences	—	0.5
Deferred tax asset on pension provision (Note 11)	13.8	14.8
Net deferred tax asset	14.1	15.1

13. Pension obligations

The Company operates the following retirement benefit schemes:

a. Defined contribution scheme

Following the closure of the defined benefit final salary scheme to new entrants, the Company offers a Group Personal Pension plan to all new UK employees. The costs for the period were £1.4m (2011: £4.7m). This includes salary sacrificed contributions.

b. Defined benefit scheme

The Company operates a UK pension scheme which provides benefits based on final pensionable salary and service up to 30 April 2010 (the date the scheme closed to the accrual of benefits). The assets of the scheme are held in a separate trustee administered fund. The scheme is closed to new entrants.

A funding valuation of the final salary scheme was carried out under the Statutory Funding Objective as at 31 March 2010. This revealed an ongoing funding level of 76%. The Company subsequently agreed a schedule of contributions with the Trustees which was put in place from 1 April 2010. It requires contributions from the Company to improve the funding level of the scheme and to cover the expenses of running the scheme. The Company agreed to pay additional contributions of £108.8m over the period 1 April 2010 to December 2019. Contributions in respect of future service benefits ceased on 30 April 2010. A further valuation of the scheme will be undertaken as at 31 March 2013.

The liabilities have been calculated by, and the assumptions set on the recommendations of, an independent qualified actuary.

The liabilities at the disclosure date allow for indexation in line with the Consumer Prices Index.

The Company paid a total of £18.0m in contributions to the fund during the year (2011: £17.0m).

FRS 17 Retirement benefits

The major assumptions used for the updated actuarial valuation were:

	2012 % p.a.	2011 % p.a.	2010 % p.a.
Rate of general increase in salaries	4.00	3.95	4.40
Rate of increase in pensions in payment			
Pension earned before 6 April 1997	3.00	3.00	3.00
Pension earned from 6 April 1997	3.25	3.20	3.75
Discount rate	4.50	4.85	5.40
Inflation assumption – RPI	3.00	2.95	3.40
Inflation assumption – CPI	2.10	1.75	2.65

Life expectancy at age 65 for a member currently aged 45 is 24.9 years (men) or 26.1 years (woman). Life expectancy for a member currently aged 65 is 23.5 years (men) or 24.6 years (woman).

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected long term rate of return at the balance sheet date were:

	Long term rate of return expected at 31 December 2012 %	Value at 31 December 2012 £m	Long term rate of return expected at 31 December 2011 %	Value at 31 December 2011 £m	Long term rate of return expected at 31 December 2010 %	Value at 31 December 2010 £m
Diversified Growth Fund	8.10%	61.9	6.55	105.7	6.40	108.0
Asset Allocation Fund	6.75%	50.8	—	—	—	—
Bonds	3.90%	51.0	4.5	43.9	4.95	34.4
Cash	0.55%	15.4	1.1	9.3	0.90	4.0
Metlife Policy	4.50%	90.9	4.85	88.8	5.40	85.0
Total fair value of assets		270.0		247.7		231.4
Present value of scheme liabilities		(329.9)		(306.8)		(289.4)
Deficit in the scheme		(59.9)		(59.1)		(58.0)
Related deferred tax asset		13.8		14.8		15.7
Net pension liability		(46.1)		(44.3)		(42.3)

The expected rate of return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Notes to the parent company financial statements continued

for the year ended 31 December 2012

13. Pension obligations continued

b. Defined benefit scheme continued

Analysis of the charge to operating profit

	2012 £m	2011 £m
Current service cost	0.8	0.4

Analysis of the amount charged/(credited) to other finance costs

	2012 £m	2011 £m
Interest on pension scheme liabilities	14.6	15.4
Expected return on pension scheme assets	(13.0)	(13.3)
Net charge	1.6	2.1

Analysis of amount recognized in reserves

	2012 £m	2011 £m
Actual return less expected return on pension scheme assets	5.6	(3.4)
Experience gains and losses arising on the scheme liabilities	0.2	(0.1)
Changes in assumptions underlying the present value of the scheme liabilities	(22.2)	(12.1)
Actuarial losses recognized in reserves	(16.4)	(15.6)

Changes in the present value of the defined benefit obligation are as follows:

	2012 £m	2011 £m
Opening defined benefit obligation	306.8	289.4
Current service cost	0.8	0.4
Interest cost	14.6	15.4
Actuarial losses	22.0	12.2
Benefits paid	(14.3)	(10.6)
Closing defined benefit obligation	329.9	306.8

Changes in the fair value of plan assets are as follows:

	2012 £m	2011 £m
Opening fair value of plan assets	247.7	231.4
Expected return on plan assets	13.0	13.3
Actuarial gains/(losses)	5.6	(3.4)
Contributions by employer	18.0	17.0
Benefits paid	(14.3)	(10.6)
Closing fair value of plan assets	270.0	247.7

The actual return on plan assets was £18.6m (2011: £9.9m).

History of experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Defined benefit obligation	(329.9)	(306.8)	(289.4)	(305.5)	(257.7)
Plan assets	270.0	247.7	231.4	202.8	181.9
Deficit	(59.9)	(59.1)	(58.0)	(102.7)	(75.8)
Difference between expected and actual return on scheme assets:					
Amount	5.6	(3.4)	11.7	7.5	(35.0)
Percentage of scheme assets at year end	2.1%	(1.4%)	5.0%	3.7%	(19.2%)
Experience gains and losses on scheme liabilities:					
Amount	0.2	(0.1)	31.4	(3.0)	(0.3)
Percentage of scheme liabilities at year end	0.1%	0.0%	10.9%	(1.0%)	(0.1%)
Total amount recognized in reserves:					
Amount	(16.4)	(15.6)	35.5	(30.4)	(6.7)
Percentage of scheme liabilities at year end	(5.0%)	(5.1%)	12.2%	(10.0%)	(2.6%)

Expected contribution to retirement benefit plans for the year ended 31 December 2013 are £5.0m (2012: £3.0m).

14. Reconciliation of movements in profit and loss account

	2012 £m	2011 £m
At 1 January	21.1	22.1
Profit for the financial year	19.6	12.7
Movement in actuarial valuation of defined benefit pension scheme (net of deferred tax)	(14.8)	(13.7)
At 31 December	**25.9**	21.1

15. Employees

	2012 £m	2011 £m
Wages and salaries	11.7	49.3
Social security costs	1.4	5.7
Other pension costs	2.2	5.1
Total employee benefit expense	**15.3**	60.1

The average number of full time equivalent individuals (including Board members) employed by the Company during the year was:

	2012 Number	2011 Number
Production, inspection and laboratory	9	594
Sales and distribution	16	159
Administration	161	400
Total headcount	**186**	1,153

Disclosures in respect of Directors' emoluments can be found in the Remuneration report on pages 36 to 41.

16. Auditors' remuneration

The amount of remuneration receivable by the Company's auditors in respect of the audit of the parent company financial statements is £0.3m (2011: £0.2m).

17. Capital commitments

	2012 £m	2011 £m
Capital expenditure that has been contracted for but not provided for in the financial statements	0.3	0.9

18. Financial commitments

At 31 December 2012, annual commitments under non-cancellable operating leases were as follows:

	2012	2011	
	Land and buildings £m	Land and buildings £m	Other £m
Expiring within one year	0.1	0.1	—
Expiring within two and five years	0.4	0.5	1.5
Expiring in over five years	2.0	2.2	—
Total financial commitments	**2.5**	2.8	1.5

The profit and loss account lease rental charge will not equate to lease payments for those leases having the benefit of lease incentives. In these cases the incentives are released to the profit and loss account over the period of the lease.

As at 31 December 2012, the Company held foreign exchange contracts to the value of £1.6m (2011: £1.7m) all expiring within one year. The mark to market value of these contracts was an asset of £nil (2011: liability of £0.1m).

Notes to the parent company financial statements continued

for the year ended 31 December 2012

19. Related party transactions

The Directors of The British Standards Institution had no material transactions with the Company during the year. Details of the Directors' remuneration are disclosed in the Remuneration report on pages 36 to 41. The Company has taken advantage of the exemption available under FRS 8 (Related Party Transactions) not to provide details of transactions with other wholly owned Group companies.

All transactions between the Company and non-wholly owned Group companies arise in the ordinary course of business and are on an arm's length basis.

Summary details of transactions and year-end balances with non-wholly owned subsidiaries are set out in the table below:

	2012 £m	2011 £m
Sales of services	—	0.2
Purchases of services	—	0.1
Management and other charges to related parties	0.1	1.2
Charges from related parties	—	0.1
Due from related party companies	—	1.0

20. Contingent liabilities

In the normal course of its business the Company faces legal actions and claims. Based on legal advice and taking into account the availability of insurance and provisions, the Board does not expect these legal actions or claims to have a significant impact upon the Company.

In relation to the disposal of businesses the Company has given warranties and indemnities to the purchasers. In the light of local legal and taxation advice, experience to date, availability of insurance, and provisions, the Board does not expect these warranties and indemnities to have a significant impact on the Company. The Board has made provisions where this is appropriate and this is discussed under Note 4 to the consolidated financial statements.

In the normal course of its business, the Company from time to time provides advance payment guarantees, performance bonds and other bonds in connection with their activities. Taking into account experience to date and the availability of provisions, the Board does not expect these bonds and guarantees to have a significant impact on the Company.

The Company has historically occupied leasehold properties which it has subsequently assigned or sub-leased and there is a contingent risk that if in certain circumstances the assignees or sub-lessees default, certain liabilities under the lease may revert to the Company. The number of incidents when such leases are believed to survive is small and in the light of experience to date and the availability of provisions, the Board does not expect these leases to have a significant impact on the Company.

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