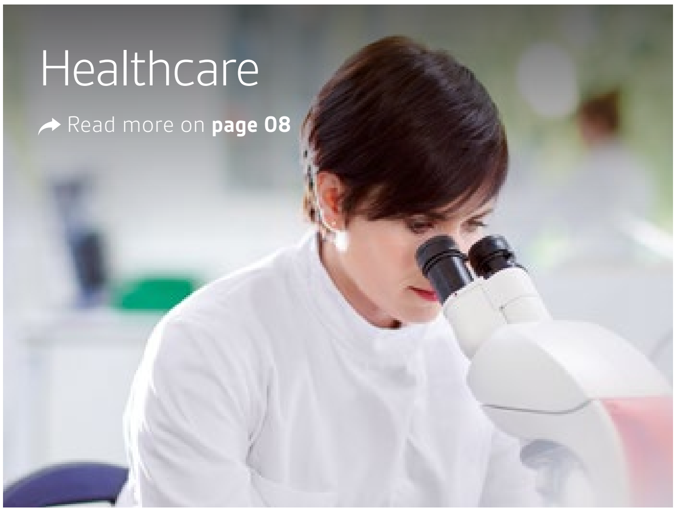
The British Standards Institution
Annual report and financial statements 2018

bsi.

...making excellence a habit.

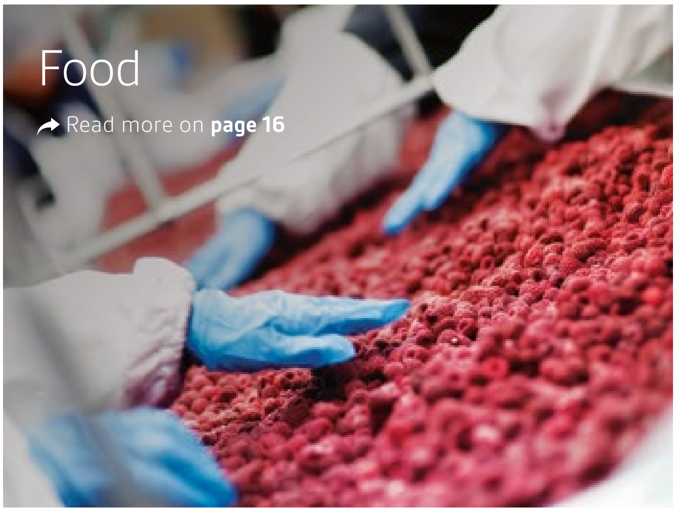
BSI is the business improvement company that enables organizations to turn standards of best practice into habits of excellence.

Resilience in action...



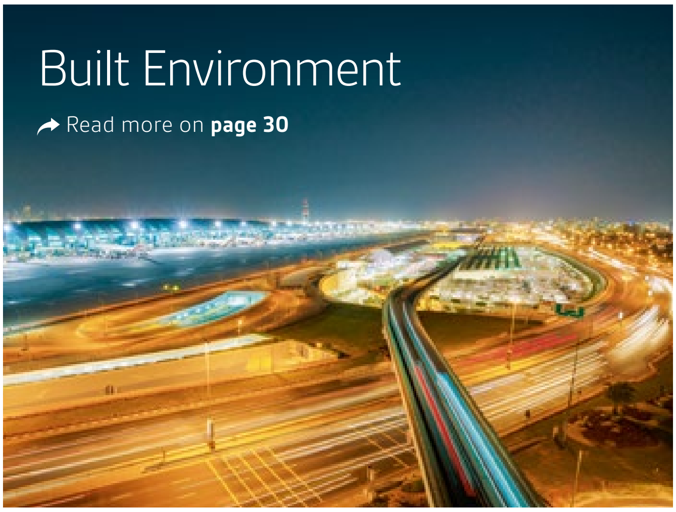
Healthcare

Read more on **page 08**



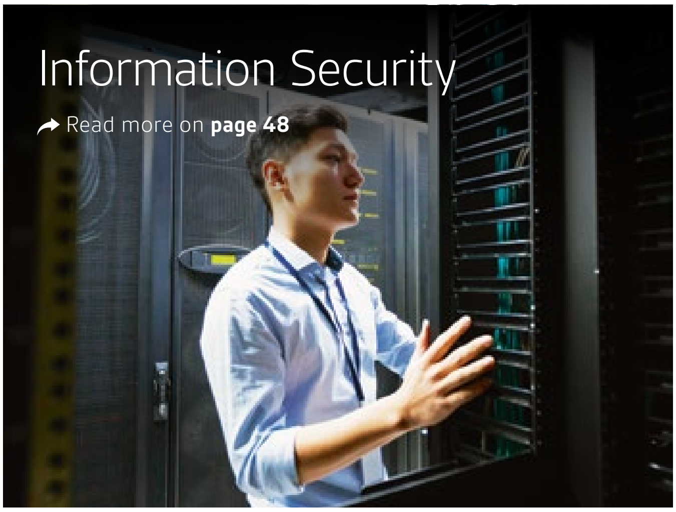
Food

Read more on **page 16**



Built Environment

Read more on **page 30**



Information Security

Read more on **page 48**

Highlights of 2018

Revenue	Underlying operating profit*
£511.9m +8%	**£61.8m** +4%
2017: £473.0m	2017: £59.5m

Operating profit	Cash and deposits
£56.5m +2%	**£86.8m** +28%
2017: £55.3m	2017: £67.8m

Net asset value	Average employees
£178.3m +48%	**4,784** +10%
2017: £120.3m	2017: 4,333

- Strong global performance in year of significant investment and reorganization
- Record underlying revenue for the nineteenth consecutive year
- Increased underlying profit delivered organically and through acquisitions
- The implementation of our strategy continues as planned

By Royal Charter

In this report the 'Company' refers to The British Standards Institution, a Royal Charter Company, Companies House number ZC0202, which is the parent company for the financial statements. 'BSI', 'BSI Group' or 'Group' means the Company and its subsidiaries. The BSI logo, 'Kitemark™', the 'Kitemark™' device, 'Supply Chain Solutions™' and 'Entropy Software™' 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 effects of material disposals'.

Contents

* Through the passion and expertise of our people, we embed excellence in organizations across the globe to improve business performance and resilience.

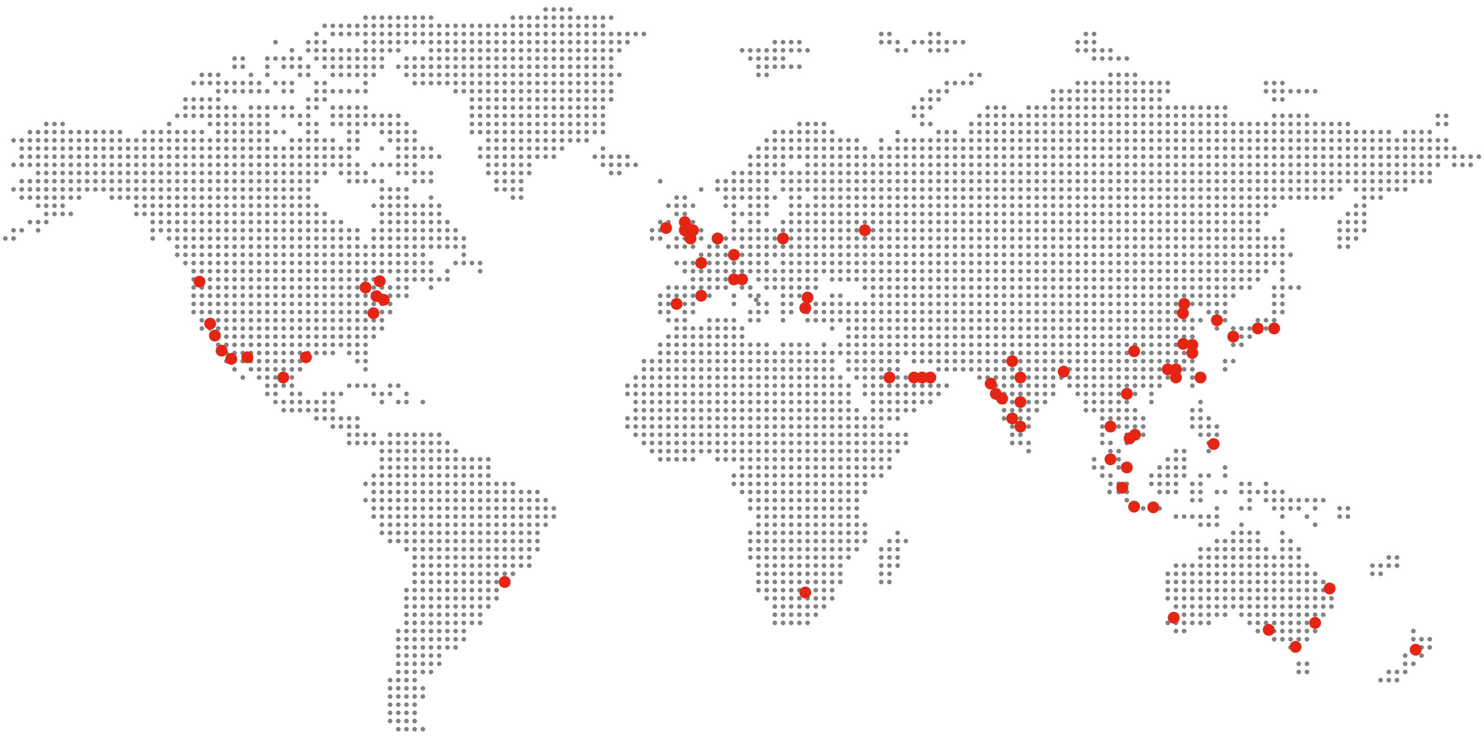
Read more about our people on page 21

Making excellence a habit

Our business is enabling others to perform better.

Imparting our global expertise worldwide

BSI is an integrated global enterprise, able to serve clients from 87 offices in 31 countries across the world. We have a presence on every continent. Our clients range from globally recognized brands to small, local companies in 193 countries across a range of industries worldwide. They trust us for our expertise, for our integrity and because we are performance minded.



50%
of the Fortune 500

84%
of the FTSE 100

81%
of the Nikkei 225

84,000
clients across a wide range of industries

Our markets and opportunities

We provide a unique combination of complementary products and services, managed through four global business streams:

KNOWLEDGE

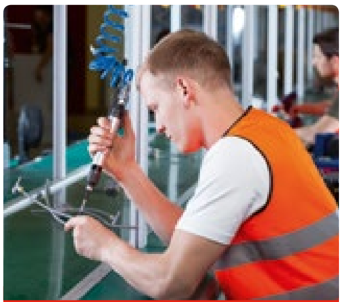
Standards Development, Services and Information Solutions

Revenue

£65.2m

2017: £60.7m

Read more on **page 23**



ASSURANCE SERVICES

Systems Certification, Product Certification and Training

Revenue

£277.4m

2017: £264.2m

Read more on **page 24**

REGULATORY SERVICES

Systems and Product Certification of Medical Devices

Revenue

£92.7m

2017: £73.5m

Read more on **page 25**

PROFESSIONAL SERVICES

Consultancy and Supply Chain Solutions

Revenue

£76.6m

2017: £74.6m

Read more on **page 26**

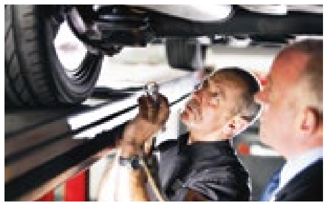
Our sectors

We operate across many sectors but focus on our areas of specialization. These are:

Healthcare

Food

Built Environment



Aerospace and Automotive

Our business model

Business streams

Our value proposition

Through the passion and expertise of our people, we embed excellence in organizations across the globe to improve business performance and resilience.

Our inputs

Our people
We are proud to employ a talented, diverse, global workforce that brings us competitive advantage and differentiates us from our competitors.

4,784
average employees

Our expertise
For well over a century we have developed our skills and demonstrated our core values to ensure that our clients work with us and keep working with us.

117
years in operation

Our products and services
We provide a unique offering to our clients that helps to embed excellence and develop resilience in their organizations.

84,000
clients worldwide

Our delivery network
Our network of 87 offices in 31 countries allows us to form a partnership with our clients, large and small, wherever they are located.

193
countries serviced

Our streams

...a specialized combination of products and services

Read more on **page 6**

KNOWLEDGE

ASSURANCE SERVICES

REGULATORY SERVICES

PROFESSIONAL SERVICES

Our method:

We provide a unique offering, designed to align with the steps individual clients need to understand best practice, how to achieve this 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 standards of excellence across products, processes and behaviours.

Share

We share our standards and guidance documents in multiple formats for organizational efficiency.

Our sectors and domains

...driving Organizational Resilience across your business

Read more on **page 7**

Sectors

Healthcare

Food

Built Environment

Aerospace and Automotive

All other sectors

Domains

Operational Resilience

Information Resilience

Supply Chain Resilience

Our stakeholders

BSI is a Royal Charter Company with no shareholders and no stock exchange listing.

Our main stakeholders are:

- Our members
- Our employees, contractors and pensioners
- Our clients, consumers and suppliers
- Our standards makers and developers
- Our accreditation bodies and regulators
- Governments across the world
- Our professional bodies and academia
- Labour organizations globally
- Our local communities

We work hard to create a balance of long-term value for each of these groups of stakeholders through our strategy, our actions and the way that we go about our business.

Embed

Our tutors and consultants transfer the knowledge and skills clients need to embed best practice in their organizations.

Assess

Our assessors measure products or processes against a particular standard, so that clients can improve their organizations and promote themselves with confidence.

Support

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

Our business model continued
Sectors

Our products and services

We provide a specialized combination of complementary products and services, managed through our four business streams.

KNOWLEDGE

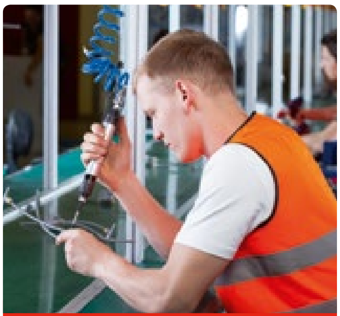
Standards, Services and Information Solutions

The core of our business is the knowledge that we create and impart to our clients as services or information solutions. We continue to build our reputation shaping standards at national, regional and international levels and delivering standardization services and technical assistance projects worldwide.

Revenue
£65.2m
2017: £60.7m

13%
of Group revenue

Read more on **page 23**



ASSURANCE SERVICES

Systems Certification, Product Certification and Training

Independent assessment of the conformity of a process or product to a particular standard provides trust and ensures that our clients perform to a high level of excellence. We train our clients in world-class implementation and auditing techniques to ensure they maximize the benefits of our standards.

Revenue
£277.4m
2017: £264.2m

54%
of Group revenue

Read more on **page 24**

REGULATORY SERVICES

Systems and Product Certification of Medical Devices

Independent assessment of the conformity of a process or product, in the Medical Devices industry, to a particular standard ensures that our clients perform to a high level of excellence and that their clients, patients worldwide, receive the correct level of medical care.

Revenue
£92.7m
2017: £73.5m

18%
of Group revenue

Read more on **page 25**

PROFESSIONAL SERVICES

Consultancy and Supply Chain Solutions

To experience real long-term benefits, our clients need to ensure ongoing compliance to a standard so that it becomes an embedded habit. We provide consultancy services and differentiated management tools to facilitate this process.

Revenue
£76.6m
2017: £74.6m

15%
of Group revenue

Read more on **page 26**

Our focus sectors

We work with almost 84,000 clients across a wide range of industries. Our areas of specialization are in those industry sectors in which we are, or aspire to be, thought leaders.

Healthcare

For some years we have been market leaders in the certification of medical device systems and product certification. We have complemented this with specific training courses and standards development and are expanding our services into pharmaceuticals and hospital services.

Food

We provide food-specific certification services for our clients in this expanding sector as well as satisfying their general requirements, led by our Food Centre of Excellence in Australia. This expertise continues through the retail supply chain.

Built Environment

Our Built Environment expertise is based on many years of working with the construction industry to develop and implement standards. We are at the forefront of smart city developments and the globalization of Building Information Modelling (BIM).

Aerospace and Automotive

We have a long history of leadership in the assurance of the Aerospace and Automotive industries and continue to consolidate our position as they develop new quality, health and safety, environmental and cyber security requirements to face their future challenges.

Ensuring patient safety

Working with medical devices, pharmaceuticals and hospital services suppliers.

1st

EU notified body to achieve designation under the new Medical Devices Regulation

>500

employees support our Healthcare sector worldwide

Medical devices

We ensure patient safety while supporting timely market access for medical devices products globally, providing our clients with thorough, responsive, predictable conformity assessments, evaluations and certifications that are recognized and accepted worldwide. Our expertise and resilience within medical devices mean that we deliver secure, robust patient safety globally, market-leading ISO and CE assessment and thought leadership for regulatory information.

Pharmaceuticals

We help pharmaceutical companies through every stage of their new product development process and lifecycle. Our global services and solutions enhance end-to-end manufacturing resilience, providing the confidence that our clients are optimizing the time to market, while still ensuring patient safety. We improve performance and enhance brand reputation, safeguarding patients, profitability and shareholder value.

Hospital services

We provide sector expertise partnership solutions that help healthcare providers to demonstrate to their patients, staff, suppliers and governmental bodies that they are fully committed to delivering the highest level of excellence in patient safety and care. We enable hospitals to mitigate risk by developing safe, robust internal processes and staff development programmes, equipping them with the knowledge and tools to excel and ensure resilience.

Our strategic vision

To be the business improvement partner of choice.

Drive thought leadership

Drive thought leadership in Organizational Resilience

- Work with relevant partners to develop and research Organizational Resilience concepts and practice
- Engage with our clients' key stakeholders so that they embrace best practice and reap the benefits

Develop market leadership and solutions in our chosen sectors and domains

- Develop leadership in our chosen sectors of Healthcare, Food, Built Environment and Aerospace and Automotive
- Develop leadership in the domains of Operational, Information and Supply Chain Resilience

Deploy integrated key account management, global marketing and communications

- Establish a commercial structure under a single leadership to exploit stream expertise for our clients
- Ensure that the market knows and understands the great strengths and knowledge of BSI

Innovate at BSI

- Develop the BSI Innovation Hub to stay ahead of developments in our marketplaces
- Continue the digitalization of BSI

Link to KPIs

1 2 3 4 5 6

Make BSI a great place to work

Engage our people through an inclusive, collaborative and rewarding culture

- Drive our strategic resource planning agenda to ensure that we have the right talent in the right roles
- Retain, train and promote wherever possible to ensure that our people can develop their careers at BSI
- Strengthen the focus on our excellence behaviours to build on our inclusive, engaging, high performance culture
- Create a consistent approach to our reward and recognition packages

Enable a resilient world, embedding social responsibility in BSI culture

- Encourage and support our people to use their skills to make a positive difference in their communities and to the environment
- Develop links to global and local charities and educational organizations to provide employees with opportunities and options for their contribution
- Celebrate our many successes in this area

Link to KPIs

1 2 3 4 5 6

FIND OUT MORE

Read about our KPIs on **pages 12 and 13**

Read about our Risks on **pages 27 to 29**

Read about Social Responsibility on **pages 41 to 47**

Deliver client-centric services

Build a leading Knowledge business

- Improve our offering to our members so that we continue to share a mutually beneficial relationship
- Further invest in innovation and technology solutions to provide ever improving smart services and responsive content

Build a leading and integrated global Assurance Services business

- Continue to invest in technology and training to ensure that we have the most appropriate service offering to provide trust
- Embed commercial best practice processes and systems to deliver a best-in-class client experience

Build a leading and integrated Regulatory Services business

- Continue to invest in resource and technology to ensure that we remain the market leaders in the Medical Devices industry
- Embed best practice processes and systems to deliver unparalleled client service

Expand and consolidate our Professional Services business

- Grow our Consultancy business globally, augmenting our expertise with targeted acquisitions
- Leverage our skills in this business with other business streams to develop our integrated client offering

Link to KPIs

1 2 3 4 5 6

Build a resilient BSI for the future

Build capabilities and scale via acquisitions and alliances

- Enhance our organic development with carefully selected partnerships with businesses and individuals to accelerate our plan
- Innovate to ensure that our product and services offering remains relevant and market leading

Enhance our processes and systems

- Continue to invest heavily in our infrastructure to ensure an excellent experience for clients and employees
- Streamline processes wherever possible to improve efficiency

Deploy an integrated global marketing and communication programme

- Ensure a single story to build awareness and understanding of our brand and capabilities in the market
- Continue to develop our global marketing and selling tools to optimize client experience and gain synergy and efficiency

Shape the organization to achieve scale and resilience in our selected markets

- Review and implement structural changes to ensure the correct approach to our priority markets as they develop
- Ensure that our infrastructure develops to support these changes and continues to guarantee our resilience

Link to KPIs

1 2 3 4 5 6

Tracking progress

Our key performance indicators, with their 2020 targets, reflect the focus of our evolving strategic plan as detailed on pages 10 and 11.

Financial KPIs

1

Revenue[1]

£511.9m

Target for 2020: £625m

Our revenue target for 2020 reflects the expected annual organic growth of the business, which remains in line with growth rates achieved in the past. This will be enhanced by carefully selected acquisitions and partnerships with businesses and individuals to accelerate our plan.

Achievements in 2018

Annual revenue growth was 8% in 2018, which comprised 10% organic growth and a reduction of 2% due to changes in exchange rates. This was a strong performance and in line with previous years' growth. As always, the different business streams complemented each other's performance, giving strength in some areas to complement and compensate a few areas of weakness.

Future focus

Future focus is for more of the same. To hit the 2020 target from organic revenue alone, BSI must deliver a compound annual growth rate of just over 10%. This is broadly in line with the growth rates delivered over the past few years. We will also continue to search for appropriate acquisitions and partnerships to add to this.

2

Underlying operating profit[2]

£61.8m

Target for 2020: £80m

We intend our revenue growth to enhance our profitability. The 2020 target reflects this, and the need to implement structural changes to the business to ensure the correct approach to our markets. Our high level of investments in 2018 will drive profitability in future years while ensuring our resilience.

Achievements in 2018

Profit growth did not match revenue growth in 2018, as material investments were undertaken during the year, aimed at strengthening our management and systems infrastructure and sales and delivery capacity. However, profit was very much in line with our expectations and, indeed, was at record levels.

Future focus

In the past, we have undergone 'investment' years, and then leveraged these investments to generate higher profits subsequently. While profit growth is not expected to be high in 2019, due to the annualization of the 2018 investment costs, they will provide a basis for a similar, more resilient profit growth in 2020 and further into the future.

Client-facing KPIs

3

Net Promoter Score[3]

+56

Target for 2020: +53

We have achieved a high Net Promoter Score (NPS), indicating the propensity of our clients to keep working with us and to recommend others to do so. As we grow it is important that our NPS is not impaired in the process. Continued high growth, coupled with a sustained high NPS, will constitute a healthy 2020 position.

Achievements in 2018

In 2018, our NPS improved still further from its high level in previous years, with the majority of our business streams showing increases on 2017. There are some areas where there is room for improvement and some streams where we would like to improve our response rate from clients but, generally, we are pleased with our progress.

Future focus

We aim to work with our clients to improve our NPS still further, particularly where it is currently suboptimal. We wish to increase our response rates in some areas and create a spread of responses that more accurately mirrors the spread of clients across our business. Of course, the mix of responses could affect our overall NPS, but this would give a better indication of what our clients really think of us.

Definitions:

1 Underlying revenue at actual exchange rates.

2 Underlying operating profit at actual exchange rates.

3 Clients are asked one question: 'How likely are you to recommend BSI's products and services on a scale of zero to ten?' If they answer nine or ten they are classed as a promoter, seven or eight a neutral and zero to six a detractor. NPS is the percentage of promoters minus the percentage of detractors.

4 Underlying revenue divided by the number of clients in the year.

5 Percentage score given by our employees for employee engagement in our biennial survey.

6 Percentage of employees who choose to stay with BSI during the year. 100% minus the voluntary attrition rate.

4

Average revenue per account[4]

£5,700

Target for 2020: £6,000

By developing our position as thought leaders and our partnerships at high levels of our key accounts in our chosen sectors and domains, we expect our clients each to do more business with us and to benefit from a broader range of our service offering. The average revenue per account (ARPA) will help to indicate if we are being successful in this objective.

Achievements in 2018

We are extremely pleased to reach our 2018 ARPA, as this has almost achieved our 2020 target already. This reflects the success of our strategy to work with our key accounts across our countries and sectors so that they buy more of our products and services across more of their subsidiaries. The investments we have made into our focus sectors, in particular, have enabled this progress.

Future focus

We will continue to implement our strategy of key account management across our chosen sectors, taking the buying decision higher up our clients' organizations so that our contacts at our clients understand the appropriate BSI portfolio of products and services and plan their purchasing accordingly.

Employee-facing KPIs

5

Employee engagement index[5]

67%

Target for 2020: 70%

We wish to engage our people through an inclusive, collaborative and rewarding culture. We aim to track our performance through regular employee engagement surveys and by listening to our employees for areas where we can improve our performance as employers.

Achievements in 2018

We undertake an employee engagement survey every two years, and our current score of 67% relates to the survey done in late 2017. Throughout 2018 we have worked with our employees to listen to their feedback from this survey and launched several initiatives to address their concerns in areas such as My Manager, Wellbeing, Fair Deal and Giving Something Back.

Future focus

We will implement the findings of our four initiatives in 2019 and continue to work closely with our people worldwide to make BSI a great place to work, in line with our business strategy. Towards the end of 2019 we will undertake another employee engagement survey, work hard to ensure a high response rate again, and see if our actions have resonated with our employees when we receive the results.

6

Retention rate[6]

87%

Target for 2020: 91%

We want to make BSI a great place to work, one where we have the right talent in the right roles and one where the work environment means that our people feel that they can develop their careers. The retention rate gives a good indication that our people feel included, trusted and valued and that there is nowhere else they would rather be.

Achievements in 2018

We have listened to why our employees choose to leave us rather than build a career at BSI. While some voluntary attrition is healthy for any organization, we wish to limit this and so have invested in career development initiatives to go alongside our employee engagement plans. We have also streamlined our recruitment process to ensure that more of the right people join BSI in the first place.

Future focus

Ensuring that our retention rate remains at the right level is a never-ending process of listening and providing opportunities for our employees to build their careers at BSI rather than anywhere else. Our developing strategic resource planning process will take a longer-term view of our requirements, promote the right recruitment and ensure that internal promotions are given where appropriate and that training needs are fulfilled.

Chairman's statement

John Hirst, Chairman

BSI performed strongly in 2018

It is a privilege for me to be writing my first statement as the 29th Chairman in the 117-year history of The British Standards Institution, and I am pleased to be able to report 2018 results showing higher levels of revenue and profit than ever before. Our established strategy of pursuing a judicious blend of organic and acquisitive growth continues to enable us to enhance the value we deliver to our clients. We remain in the robust financial health that underpins and fuels our mission to support all our stakeholders, both in the UK and worldwide.

It was particularly pleasing to deliver these strong results in a year of substantial investment for the Group, during which the focus was changed so that the business is now managed through global business streams rather than geographically as in the past. This refocus reflected our increasing requirement to provide our wide range of services on a global basis. Local delivery will ensure that all clients, regardless of location or size, will continue to benefit from the high level of service we aim to deliver. This reorganization came at an interesting time in our domestic market, as the negotiations to end the UK's membership of the European Union twisted and turned towards their expected conclusion in March 2019, creating significant uncertainty in the economy and in the future relationship between the UK and the rest of the world. Fortunately, economic conditions remained fairly stable elsewhere in the world, and BSI benefited from strong trading across its businesses to end the year, as we began it, in good financial health. Underlying revenue increased for the nineteenth consecutive year, by 8% to £511.9m, underlying operating profit increased by 4% to £61.8m, and we ended the year with £86.8m in cash and deposits, £19.0m or 28% higher than the level at the start of 2018.

Every year we seek to strike a careful balance between managing BSI's finances with proper near-term caution and making the planned investments required to continue to secure BSI's longer-term resilience. The strategic and operational investments we made during 2018 built on those we made in prior years to keep BSI at the forefront of standards making, such that our vital role in the global standards community is as strong as it has ever been. Those investments have also deepened our sector and domain knowledge and increased the effectiveness with which we deliver the benefits of it to our clients everywhere. In consequence, BSI's high reputation continues to be maintained and the power of its brand continues to strengthen. Despite the uncertainties around the precise nature of the UK's relationship with Europe in other areas, I am delighted to see that BSI has been able to cement its position as part of European standard setting and opened a notified body in the Netherlands. Both these steps mean that we will be able to continue to provide excellent service to our UK and international clients.

The Board is conscious that such achievements were made possible by the sustained investments we have made for many successive years, and will continue to make, in BSI's richly diverse and talented global team; in the effectiveness and efficiency of our operating processes; and in the strategic initiatives necessary to ensure that we continue to meet our clients' evolving needs excellently.

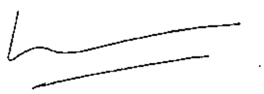
As a Royal Charter Company with no shareholders and therefore no stock exchange listing, BSI is not required to apply the UK Corporate Governance Code. However, consistent with our unique status as the UK National Standards Body and our commitment to our members, we nevertheless apply the principles of the Code where appropriate 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 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 considerable work in gathering and distilling the views of those interested in standards and providing valuable advice to 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.

On 31 December 2018, Sir David Brown stepped down as Chairman of BSI. Sir David joined BSI as Non-Executive Director in May 2010 and became Chairman in March 2012. His contribution to the business over this period has been immense and it is an honour to succeed him in this role. On behalf of the whole of BSI, I would like to thank Sir David for the dedication and energy with which he has guided BSI so successfully and wish him well for his future. I joined the Board as Non-Executive Director in October 2018 and became Chairman on 1 January 2019.

As mentioned in last year's report, Alicja Lesniak, Non-Executive Director and Chairman of the Social Responsibility Committee, retired at the end of March 2018. The Board is very grateful to her for her distinguished service to BSI. We are well advanced in the process to appoint Alicja's successor and hope to make an announcement shortly.

Since joining BSI, I have already had many opportunities to work with the BSI Executive team and other employees across the business. I have been struck by their deep knowledge of the business and the dedication and integrity with which they go about serving their clients across the world. They, and the very many BSI Committee Members and Subscribing Members, are the heart of BSI. Without them BSI could not still be one of the most prominent and respected standards bodies in the world today. I look forward to working with them all throughout my tenure as Chairman, as we continue to build on the strong foundations and deep history of the Institution.

As we begin our 118th year, the Board is confident that 2019 will be another year in which, together with all BSI's stakeholders, we can look forward to both capitalizing on our profound strength and continuing to invest in building the capacity to deliver yet more for all those who depend on BSI, all around the world, and to continue to earn the trust they place in us.



John Hirst
Chairman
20 March 2019

Q&A with the new BSI Chairman

Q What appealed to you about becoming Chairman of BSI?

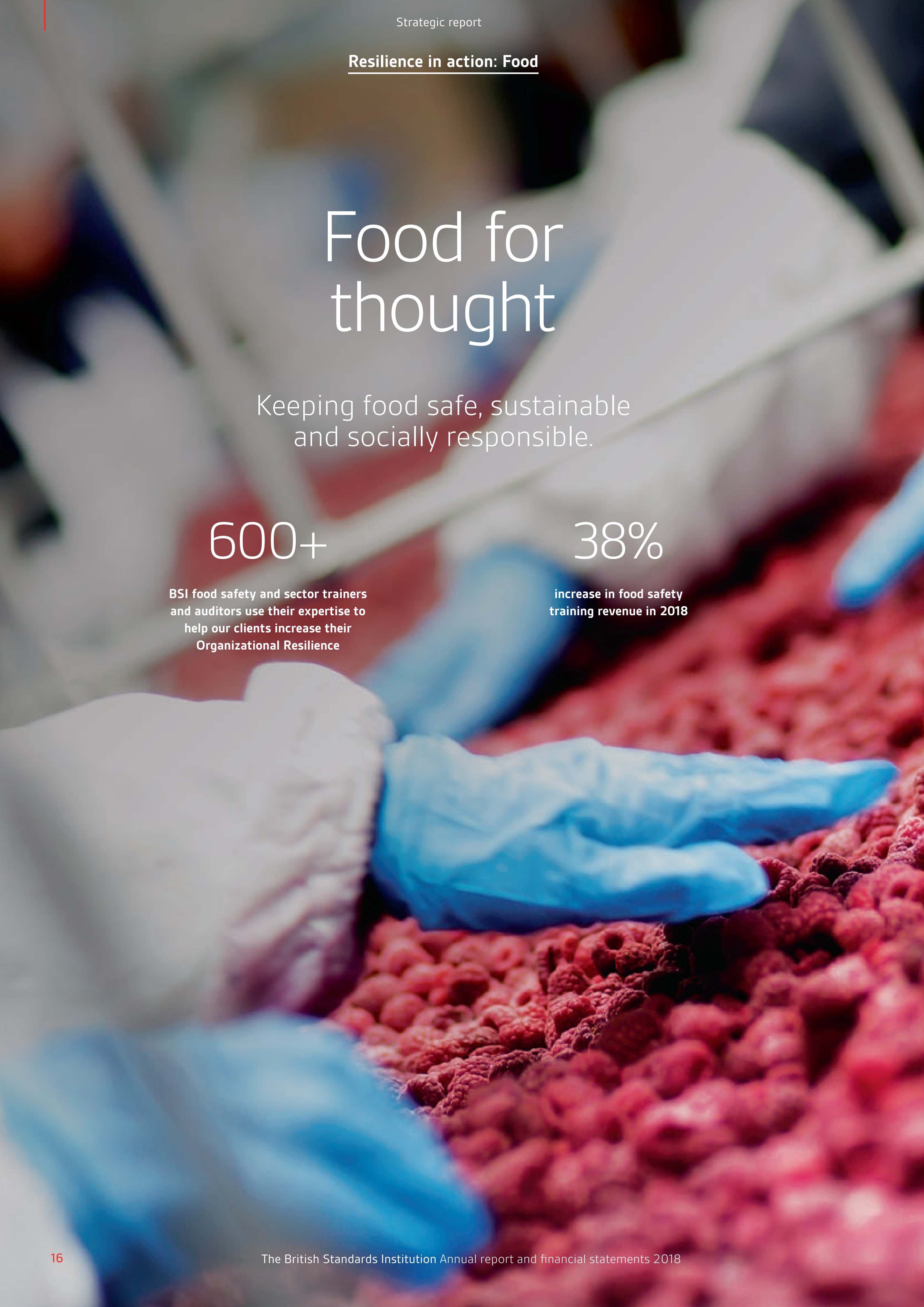
A BSI has a fantastic amalgam of a genuine public and national purpose, partnered with a well-run business with huge potential, a proud and respected history and an exciting range of possibilities for the future. All of this, together with the evident integrity and dedication of the people I met during the interview process, made the decision very easy. And what is great is that, since joining, all my first impressions have been confirmed. I have been made to feel very welcome and am really excited about the future.

Q What do you think will be your main areas of focus in your first year at BSI?

A Of course, on joining a new organization, there is a lot of learning to do, so I shall be doing a lot of listening but, progressively, as I become more confident in my understanding, my main aim is to help the Board shape the strategy for the next phase of development and growth. BSI's successes over the past few years have built an excellent platform, and I hope that my experience in running global businesses and working with the UK Government will help me to add to the knowledge and expertise that already exists to deliver that strategy.

Q How is BSI building for the future?

A BSI's strategy has been clear for a few years now and is reported elsewhere in this Annual Report. In 2018 the new management structure, based on global business streams, was established to facilitate the delivery of this strategy. Our financial results have been strong, again, in 2018 and cash levels are at an all-time high. We are working closely with our employees to ensure that BSI is a great place to work, and with our clients to ensure that we remain a relevant partner to them. I, and the rest of my colleagues on the Board, will look forward to implementing this strategy as we face the future with great confidence.



Food for thought

Keeping food safe, sustainable and socially responsible.

600+

BSI food safety and sector trainers and auditors use their expertise to help our clients increase their Organizational Resilience

38%

increase in food safety training revenue in 2018

Globalization

The world's population is set to reach 11.2 billion by 2100. Food production and supply chains account for around 30% of all global energy consumption. Globalization is increasing financial exposure to natural disasters and economic instability. Extreme weather events are putting food security at risk. And media-savvy, trend-conscious consumers are driving demand and influencing how food is grown, manufactured and packaged.

Supply chains

Despite these pressures, the food sector is still expected to deliver a steady supply of safe, sustainable and socially responsible food. From implementing artificial intelligence and blockchain to managing humane labour practices and environmental impacts, the journey from farm to fork is becoming more complex.

Trust

Whether it is ensuring that food safety management systems are robust, that 'secret recipes' and client data are secure or that suppliers are acting ethically and responsibly, BSI is uniquely positioned to help food businesses grow their clients' trust and increase their Organizational Resilience.

Chief Executive's review
Howard Kerr, Chief Executive

Trust is at the heart of BSI

BSI has continued its growth and its development into an integrated global enterprise, able to serve clients across the world with an expanding range of products and services from a growing network of offices.

'During 2018 we implemented a new management structure for BSI.'

Summary

At BSI, we are proud to have over a century of experience working with clients across the world to help them to develop resilience in their business and build a relationship of trust with their stakeholders. Over this time, they have come to trust us as business partners. We work hard to warrant this trust, as this remains at the heart of everything we stand for in our brand and our reputation. Our continued progress and growth demonstrate our own resilience, with 2018 another year of pleasing success.

As in prior years, BSI has continued its growth and development into an integrated global enterprise, able to serve clients across the world with an expanding range of products and services from a growing network of offices. During 2018, we took this globalization to a new level with a reorganization of the way that we manage our business. We moved from a geographical management structure, based on our four regions, to one managed along global business stream lines for the four main product and service areas of BSI. So, for the first time, the Business review of our 2018 Annual Report is split between the four global business streams of Knowledge, Assurance Services, Regulatory Services and Professional Services. The newly formed Regulatory Services stream currently comprises our Medical Devices business, in which we provide both systems and product certification in this regulated industry. This stream reported 26% revenue growth in 2018 and, with the introduction of new medical devices and in-vitro diagnostic medical devices regulations (MDR and IVDR) in Europe increasing significantly the scale and demand from clients, it was clear that dedicated focus was appropriate.

This structural refocus reflects the way that our clients go about managing their business, demanding solutions that are internationally relevant and delivered locally by our network of standards developers, auditors, tutors, technical experts, testers and consultants based in 31 countries but actually doing business in over 190 across the world. A commercial team works to match clients to our diverse portfolio of products and services across all industries, and we have established dedicated sector management in industries where we have our strongest presence and are, or aim to be, recognized as thought leaders: Healthcare, Food and Built Environment in the first phase, to be followed by more in the future.

Three years ago, I wrote for the first time about the concept of 'Organizational Resilience' that we had developed as a natural consequence of the building

‘Embedding excellence through the passion and expertise of our people is at the heart of what we do.’

blocks of the strategy that we have been implementing over recent years. Embedding Organizational Resilience, internally and externally, remains the cornerstone of our strategy, and these new structural developments enhance this, and the unique and specialized offering that we can deliver to our clients as they continue to develop their own Operational, Information and Supply Chain Resilience capability.

2018 was a mixed year for the world economy, insofar as it related to BSI’s business. There were few new economic, political and social shocks to disturb the world order. The strongest prevailing influence was the legacy of uncertainty remaining from events of previous years. In particular, for BSI, is the continued lack of certainty over the conditions under which the UK will leave the European Union in 2019. Indeed, a significant amount of management time in 2018 was dedicated to ensuring that BSI was prepared for whichever manifestation of Brexit the ongoing withdrawal negotiations ultimately achieve.

Regardless of the eventual terms of Brexit, we received confirmation in late 2018 that BSI will, in future, continue to participate actively in the European single standard system as the UK National Standards Body through continued membership of and participation in European Standards Organizations, such as the European Committee for Standardization (CEN), the European Committee for Electrotechnical Standardization (CENELEC) and the European Telecommunications Standards Institute (ETSI), which are independent of the EU.

We continue to work closely with the UK Government to support the Department for Business, Energy and Industrial Strategy (BEIS), the Department for Exiting the European Union (DExEU) and the Department for International Trade (DIT) in their preparations for Brexit and negotiations to ensure the best possible result for our UK and global stakeholders, and the future of BSI itself. In addition, we continue to monitor the ongoing discussions and attempt to optimize our response to Brexit as they develop. We believe that it is important that UK notified bodies, such as BSI, use their proven expertise to maintain their important conformity assessment role and ensure our clients’ ongoing access to UK and European markets. We have received confirmation of the establishment of our new notified body in the Netherlands, confirming our ability to provide market access for our clients from inside the EU. Also, our International Projects division which has, historically, been the recipient of EU funding for much of its work, has opened an office in Paris to ensure future participation in such projects. Our objective is to provide continuity of service to our multiple stakeholders during and after the Brexit transition process.

Notwithstanding the normal fluctuations in currency, commodity and stock markets in 2018 and the ever-present risks that accompany the effect of terrorism, social migration and regional conflict, other than uncertainty over the terms of eventual Brexit, there were no significant negative macro-economic influences on our business during the year. The global trading environment proved quite buoyant for BSI, particularly in the US, China, India, Australia and Japan, some of our most important trading markets outside the UK. The three-year transition period to the new versions of our major standards ISO 9001 (Quality Management) and ISO 14001 (Environmental Management) ended in September 2018 and this will adversely affect growth rates in our Assurance Services stream for the twelve months following this date.

In 2018, BSI has continued to develop its geographical, business stream, sector and domain footprint to ensure that we remain well hedged against external business cycles, whether global or local, sector or currency related. As we develop internationally, our natural hedging against all of these cycles improves and we will continue to manage this process proactively.

As such, taking into consideration the significant level of investment required to establish the new structure and resource our growing business streams, it is pleasing to be able to report that BSI once again demonstrated its financial resilience to record the highest levels of revenue and profit in its history. Revenue for the year was £511.9m, an increase of 8% on the £473.0m reported in 2017. This increase comprised 10% organic growth and a reduction of 2% due to changes in the average value of Sterling during the year against our other trading currencies. New sales orders, which will translate into revenue over time, grew organically by 12% at constant exchange rates. While slightly lower than the 16% reported in 2017, this remains in excess of our revenue growth and remains a good indicator of revenue opportunity to come in future years. Many of our sales orders translate into revenue very quickly but others, such as our Assurance Services and Professional Services business streams, enjoy a large proportion of revenue driven by longer-term contracts with our clients.

As a Royal Charter Company with no shareholders, BSI is in a position to be able to invest its retained profits back into the business. In 2018, we accelerated our investments in IT infrastructure, technical recruitment, office refurbishment, product development and marketing, to support the new management structure and to build a solid base for expansion in 2019 and beyond. These have had the expected effect of depressing the rate of profit growth in 2018 but, as similar investments have done in the past, they should leverage higher profits in a more resilient way in the future. Underlying operating profit (UOP) was £61.8m in 2018, 4% higher than the £59.5m reported in 2017 despite the investments. This growth can be split into 5% organic, 1% inorganic and a 2% reduction due to exchange. UOP margin decreased, as a result, from 12.6% in 2017 to 12.1% in 2018.

Structure

As I indicated in the 2017 Annual Report, during 2018 we implemented a new management structure for BSI. We now manage our business through four global business streams, Knowledge, Assurance Services, Regulatory Services and Professional Services. These are supported by a strong local network of delivery resources in our three geographical regions, Europe, the Middle East and Africa (EMEA), the Americas and Asia Pacific. Since 2016, we have enhanced this structure by beginning to recruit recognized thought leaders to manage our chosen sectors and domains, to ensure that our clients receive the best possible service and expertise from us. We have formalized this during 2018 with the appointment of leaders for two of our most important sectors, Healthcare and Food, and intend to appoint a leader for our Built Environment sector in 2019. These sector leaders will concentrate on key account management, bringing together our unique business stream offering to provide added-value benefits and excellent service to our clients. Supporting this client-facing structure are highly enabling central functions and innovative business systems in which we invest continuously.

This is overseen by the Group Executive Committee, which sets and manages targets and reacts quickly and flexibly to changes in the competitive environment. I chair the Group Executive Committee, which now comprises functional directors in Finance, Human Resources and Legal, the Director of Standards, the heads of the four business streams, and the Group Commercial Director, who joined us in early 2019 and is responsible for developing and implementing the strategy for commercializing our offering across the business.

Sectors

In anticipation of the arrival of the Group Commercial Director, we made strong progress during 2018 in developing our client offering in three of our main focus sectors, Healthcare, Food and Built Environment.

In Healthcare we appointed a new sector leader and recruited five Business Development Directors, to cover our three geographical regions of EMEA, the Americas and Asia Pacific. They will concentrate on implementing our strategy of delivering tailored client offerings to key accounts in the Medical Devices, Pharmaceuticals and Hospital Services sub-sectors. We were successful in winning several global preferred supplier contracts with large blue-chip pharmaceutical companies and hospital chains and now support seven of the top ten global pharmaceutical companies globally as well as the top 20 medical devices companies.

In the Food sector, we also appointed a sector leader and Business Development Directors to cover our three geographical regions. We appointed a Training Director, an Operations Director and a Community Director to identify development priorities for the sector. Tailored new product offerings are being developed from the BSI suite of products to cover certification, origin and traceability and food safety.

We have appointed focused leadership roles in our Built Environment sector in the US, Australia, the Middle East and Asia Pacific. In the UK we have recruited in our Product Certification business to strengthen focus on innovation in construction products and digital construction. We launched Building Information Modelling (BIM) Level 2 Kitemark and Smart City Kitemark schemes during the year, which have been popular with clients across the world, from London to Dubai to Korea.

Investments

2018 was a real investment year for BSI. As explained already, we have implemented a new management structure, strengthening the resilience of the business both at the very top level of management and in supporting layers, as we underpin the growth of the Company that has taken us from revenue of £255m in 2012 to over £500m in 2018.

In addition to the significant investments in the recruitment and development of our people, we have continued to invest heavily in IT systems and infrastructure, which look towards the BSI of the future while allowing us to do our business effectively today in this digital age. We have integrated all of these system and process development projects into a single Business Transformation programme which fully supports our business strategy. 2018 saw the completion of several projects, including a global implementation of Client Relationship Management software and improvements to our Assurance Services client portal and Medical Devices' operations support. We also instigated new projects, including a new global Human Resources Management platform, a Finance Transformation project, incorporating shared services and market-leading specialist accounting platforms, a new version of our eShop in our Knowledge stream, and Global Infrastructure and Digital Workplace projects to harmonize our IT infrastructure and strengthen our cyber and IT security across our estate. We expect levels of investment required to deliver these projects to peak in 2019, before returning to more normal levels in 2020 and beyond.

We also continue to invest in the development of innovative new standards that not only meet the needs of the economy and society today but anticipate the requirements of the future. Our standards development team has engaged extensively with current and new stakeholders in the UK and beyond to promote the benefits of standards and standardization. As a result, interest in the products and services that BSI has to offer has increased significantly. We have continued to invest in the development of training courses, which focus on the requirements of businesses as they embark on or develop their own journeys to standardization.

In recent years we have pursued our strategy of combining organic growth with accretive inorganic growth and completed eight acquisitions between 2015 and 2017, primarily in the Professional Services stream. These acquisitions are now fully integrated in BSI and delivering strong performances in the majority of cases.

A single, small, acquisition was completed in 2018 as our focus was more geared towards our internal reorganization during the year. In November 2018 we acquired AirCert GmbH, a specialist Aerospace certification company based in Munich, Germany. The AirCert team has a deep knowledge of and a strong reputation in the German Aerospace industry. This acquisition supports our global growth strategy for our Assurance Services stream, as well as strengthening our presence in one of our key sectors. It also allows us to join the coveted group of Aerospace certification bodies that are accredited to DAkkS, the German accreditation body, enabling us to accelerate the development of our Assurance Services business in such an important market.

Stakeholders

Due to our position in global standards making and world business, BSI has a wide range of stakeholders from governments, professional bodies and academia, through our members and standards makers to our people, clients and suppliers. These relationships are all vital to us as we go about our work to drive resilience and make excellence a habit, both internally at BSI and in the wider world. We work hard to engage with all our stakeholders and to create a balance of long-term value for each through our strategy, our actions and the way that we go about our business. We completed a stakeholder mapping exercise during 2018.

People

Embedding excellence to improve business performance through the passion and expertise of our people is at the heart of what we do at BSI. The focus for 2018 was to continue to make BSI a great place to work and a company that is agile, innovative and client focused. Our philosophy is that if we look after our people, our people will look after our clients and each other. In 2018 we continued to strengthen our global recruitment practices and resourcing teams. Globally we had over 50,000 applications for job vacancies and we recruited over 1,200 new employees in the year. As a result, we had, on average, 4,784 people working for BSI, an increase of 10% over 2017.

As we continue to grow, this year saw an increasing focus on the global mobility and internal promotion across our business. We are proud to employ a talented, diverse, global workforce which provides the expertise that brings us competitive advantage and innovative thought leadership. As a result, developing and maintaining this expertise is critical to our success and learning and development is the key to this. Towards the end of 2018 we launched a new suite of training and development courses and continued to invest in our employees' professional and career growth through leadership programmes and coaching.

Our global academies continued to develop people in standards, technical skill and professional capability and, in the UK, we also increased the number of apprenticeships, launched a learning hub and focused on science, technology, engineering and mathematics (STEM) training in our local schools and adult education facilities. Our overriding aim is to provide development for all our employees throughout their careers so that they can realize their potential and unique skill sets in order 'to be the best that they can be'.

During 2018, we strengthened the focus on BSI's excellence behaviours to build on our inclusive, engaging, high performance culture. As we realigned our internal organizational structure to four key business streams, we added an excellence behaviour of 'collaboration', which we believe is the basis for how we work together and the philosophy of our culture and our business. We launched and refreshed our employer brand and, as a result, we are clearer about why people are motivated to work at BSI. We have made progress in our efforts to ensure that we have the reward packages in place to enable us to attract and retain the talent we need. Our focus is to enhance our reward policies and processes so that they meet the demands of managing a global workforce and, in 2018, we created job families and matched these to all our employees globally, simplified our bonus schemes and carried out a global benchmarking exercise and gap to market analysis. Much of what we did was to identify and replicate best practice across the Group in order to create a consistent approach to our reward and recognition packages.

'We look forward to driving BSI to future success.'

We aim to deliver a culture of trust and empowerment where our leaders listen to and act upon employee feedback to continue to be a best-in-class business. At the end of 2017 we undertook our fifth global employee engagement survey which had a response rate of 78%. Throughout 2018 we continued to work with our employees to respond to their feedback following this survey. Four key areas of focus were on My Manager (leadership and career development), Wellbeing (where we started the implementation of a global employee assistance programme and continued to analyse how we can improve work-life balance), Fair Deal (remuneration) and Giving Something Back (where our staff requested that we do even more to continue to work with our local communities and the environment).

Above all, we aspire to be a great place to work, a business that talented people want to join and where they can grow their careers. I would like to take this opportunity to thank each and every one of the BSI family for their hard work and the continued demonstration of our core values of Integrity, Inclusivity and Continual Improvement, which guide us in everything we do. Our people are our most valuable asset and make our BSI family what it is today.

Chief Executive's review continued

WE SUPPORT

Social responsibility continues to be a business imperative and we remain committed to enabling a better, more resilient, world for present and future generations. We do this through our own operations as well as through our products and services, some of which are highlighted in this report. We recently became a signatory of the UN Global Compact and are proud to support the ten principles of the UN Global Compact on human rights, labour, environment and anti-corruption.

Clients

Once again, we delivered our products and services to an extensive client base. We worked with almost 84,000 clients in over 190 countries across the globe in every continent. During 2018, although we worked with clients of all sizes, from large multinational clients to small and medium-sized enterprises, in line with our strategy, we focused our efforts in our chosen sectors and in our key account management. In some cases where, in the past, we have considered several subsidiaries of the same company to be individual clients, we are now working with them holistically as part of our developing key accounts management programmes. These programmes allow us to offer products and services coherently from each of our business streams to the client from a single point of contact, ensuring that the client understands, and can benefit from, the full range available from BSI. In return, we hope to serve clients across their business, rather than to each subsidiary individually.

Interestingly, this approach has meant that we actually worked with fewer clients in 2018 than in 2017. In 2017 we worked with over 86,000 clients, but this fell to just below 84,000 clients in 2018. However, there was a strong increase in our average revenue per account (ARPA), which grew by 12% from £5,100 in 2017 to £5,700 in 2018. ARPA is an increasingly important key performance indicator for us as it indicates the success of our strategy to work more globally with key accounts. We set our target ARPA for 2020 as £6,000 and only need to grow by 5% in the next two years to hit this target, which we should achieve if current trends continue. The combined effect of these two parameters has resulted in the strong growth of revenue during the year of over 8%.

Of course, the growth in revenue needs to be complemented by client satisfaction and, again, our clients have told us that, generally, they are very satisfied with BSI and that they benefit from working with us. In 2018, 64% of respondents to our question about how likely they would be to recommend our services scored us nine or ten out of ten, and only 8% scored us between zero and six out of ten. This gives us a Net Promoter Score (NPS) of +56. This is an increase of three points even on the high level we achieved in 2017. We must not be complacent with this success. We are fully aware that our scores differ by business stream, and that a change in the mix of respondents between business streams could result in an adverse movement in the NPS from year to year. We listen to our clients constantly and do whatever we can to ensure that they treat BSI as their business partner of choice, for more and more of their knowledge, assurance services, regulatory services and professional services requirements.

Our reputation remains paramount to us at BSI. It is underpinned by our credo of 'Making Excellence a Habit'. Everyone at BSI works to these high standards and that is why our clients work with us and continue to work with us.

Outlook

We delivered record results in 2018 despite significantly increasing our levels of investment. Our strategy of developing our business globally, by business stream, by sector and in our key domains of Operational, Information and Supply Chain Resilience, provides a strong natural hedge against most economic, political and social issues that can create uncertainty in a global trading environment. So, we approach 2019 with confidence, while watching closely the developments of the international marketplace, particularly the outcome of the Brexit discussions. We continue to complement the organic growth that we have reported annually over many years with carefully selected accretive acquisitions, leveraging the strong cash-generative nature of our business to optimal effect. We will continue to implement our strategy as we have done in prior years, and optimize our structure to exploit our opportunities, and look forward to driving BSI to further success in 2019 and beyond.

Howard Kerr
Chief Executive
20 March 2019

Performance by business stream

We provide a specialized combination of complementary products and services, managed through our four business streams.

KNOWLEDGE

Our Knowledge business stream comprises our Standards Development, Services and Information Solutions businesses.

Revenue
£65.2m
2017: £60.7m

Growth
7%
(+7% at constant exchange rates)

Proportion of total revenue
13%
2017: 13%

Our Knowledge business stream delivered a strong annual revenue growth of 7% at constant exchange rates in a mature market. This is significantly higher than the growth rates recorded in recent years. We continued to implement our strategy of providing smart content, knowledge and services to support our clients whenever their requirement for standards and compliance related information arose.

Document revenue grew by 3%. Annual revenues are influenced by the multi-year publishing cycles of our higher selling standards. The anticipated decline in sales of the 2015 revisions of ISO 9001 (Quality Management) and ISO 14001 (Environmental Management) continued but was more than offset by sales of new publications, including a strong performance by the 2018 revision of ISO 45001 (Occupational Health and Safety Management). An increasing portion of our document sales are now online, with 75% being delivered digitally. The planned re-launch of our eCommerce website was, however, delayed and will now take place in 2019.

Our subscription revenue increased by over 8% in 2018, driven by our two largest subscription products. Our flagship British Standards Online (BSOL) continued to deliver strong revenue growth from new business, as well as maintaining its market-leading renewal rates. Compliance Navigator, our compliance knowledge tool for the Medical Devices industry, delivered another year of significant market growth and is now a product of meaningful scale. Our third-party distributor partners also delivered a strong performance, significantly growing our high-margin copyright and royalty revenue.

We have continued to deliver our strategy of expanding our standards consultancy and advisory services, which grew by 14% this year. We are currently aligning these businesses more closely as we expand the services we offer to help our clients to implement and use standards to increase their value to business. Our International Projects consultancy business has faced significant challenges securing new projects from its traditional funding source of the European Union, due to uncertainty over the future role of the UK in this union, but this has reinforced our successful strategy to diversify and develop relationships with a broader base of funding bodies. As such, we were successful in securing a significant contract to develop a Commonwealth Standards Network (CSN) in partnership with the UK Government's Department for International Trade and Department for International Development. Announced by the UK Prime Minister at the Commonwealth Business Forum in April, the UK Government will provide funding over the next two years to tackle non-tariff barriers and promote stronger trade among all Commonwealth states.

Our Standards Solutions business delivered a record year of revenue from publishing Publicly Available Specifications (PAS) and private standards for clients, as well as increasing its delivery of broader consultancy services, growing overall by 24%.

We have accelerated our focus on innovation and increased our standards development and services activity in enabling technologies such as artificial intelligence, blockchain and the Internet of Things (IoT). We have also made good progress with our Knowledge Laboratory innovation initiative, running a number of prototype tests and trials to transform the way we think about our product development and to help us to discover what our clients need and want quickly and inexpensively. We continued to explore the agile development of standards, allowing them to be developed using a digital, collaborative, flexible and iterative process, and published our first document developed using a collaborative online authoring tool – PD 5500 (Pressure Vessels).

In addition, we have continued the development of a number of communities under our stewardship, which are focused on bringing together relevant expertise to enhance the value of standards to deliver business performance improvement in areas such as the Internet of Things, Smart Cities and the digitalization of the Built Environment.

Our continued growth in mature markets demonstrates the level of trust that our clients place on the range of BSI products and services. We plan to continue to expand this range and our partnerships with third parties to deliver yet another year of growth for our Knowledge business in 2019.

Business review continued

ASSURANCE SERVICES

Our Assurance Services business stream comprises our Systems Certification, Product Certification and Training businesses.

Revenue
£277.4m
2017: £264.2m

Growth
5%
(+7% at constant exchange rates)

Proportion of total revenue
54%
2017: 56%

Following the 2018 reorganization of BSI, our Assurance Services business is now managed as a single global business stream, which allows for better alignment of operations and client service. The Medical Devices business, reported last year as part of Assurance Services, is now managed as the Regulatory Services stream, details of which can be found on page 25. This structure optimizes our ability to promote collaboration across sub-streams. For example, we can promote a combined certification and training option for the new international standard ISO 45001 (Occupational Health and Safety Management) and can innovate new value added services and effective delivery modes.

Systems Certification

Our Systems Certification business grew by 7% in 2018 at constant exchange rates. In mid-September 2018, the three-year window for companies to transition to the new version of our two major standards, ISO 9001 (Quality Management) and ISO 14001 (Environmental Management), ended. We successfully completed the transition of all our clients globally who wanted to upgrade to the new versions within the deadline set by ISO. Our approach permitted our clients to enjoy sooner the benefits of these new versions, as well as their variants in the Automotive and Aerospace industries, thus improving their performance and resilience. We, and our competitors, have benefited in the past three years from the additional days' business that each transition has required. This will not repeat in 2019 and beyond.

In 2018, we successfully deployed the BSI Assurance Portal across all our clients, offering real-time access to essential information about their status, such as their assessment schedule, audit reports and certificates. This has been extremely well received by our clients as it gives them better visibility of audit findings to help them discern trends and opportunities for improvement, as well as allowing them to compare their performance against industry best practice.

In terms of new product development, we launched a number of certification solutions, including BS 10012 (Personal Information Management), the National Institute of Standards and Technology (NIST) Cyber Security Framework and the Payment Card Industry Data Security Standard (PCI DSS) to name a few.

In November, we completed the acquisition of AirCert GmbH, a small German certification body specializing in the Aerospace sector, and one of only eight accredited to DAkkS, the German accreditation body. Globally, BSI is now the number two supplier in the Aerospace sector, an attractive, high value global sector in which we already had considerable strength.

Product Certification

Even before the reorganization of BSI, Product Certification was run as a global business, with our business units around the world having access both to local testing facilities and our Group-owned laboratories in the UK. The new structure consolidated this business model and will provide a strong base for its future development.

Our Product Certification sub-stream grew by 7% during 2018 at constant exchange rates, a lower rate than achieved in recent years. There was not a single reason for this, more a combination of small shortfalls to expectations across the board. The uncertainty created by the negotiations for the eventual withdrawal of the UK from the European Union somewhat impacted our business. In preparation for possible Brexit scenarios, we implemented our contingency plans and achieved accreditation by RvA, the Dutch Accreditation Council. This means that we can continue to provide conformity assessment services for clients so that their products can obtain the CE marking necessary to access the European Union and European Economic Area. We have also extended other regional services with additional market access certification for the Middle East and Australia. We have started to work more closely with our US business and expect significant growth from this region in the future.

During 2018, we introduced new and relevant Kitemark schemes for customer services and vulnerable clients. Having launched our Internet of Things (IoT) Kitemark offering in late 2017, we have seen increasing interest during 2018, and have tested many products and issued our first IoT Kitemark licence during the year.

Looking forward into 2019, our key focus will be to ensure that our clients receive seamless support regardless of the eventual outcome of the Brexit negotiations.

Training

2018 proved to be a challenging year for our Training business. Having profited greatly in terms of revenue growth over the past three years due to training clients on the transition to the new version of our core quality management and environmental management standards, 2018 brought a sharper than expected decline for these products as the transition period came to an end. Despite this, overall revenue growth was still a creditable 9% at constant exchange rates, benefiting from the successful integration of the Neville Clarke business, acquired in 2017, into our existing BSI ASEAN business, and the growing contribution of our strategic product portfolios, with new products introduced in Health and Safety, Healthcare, Automotive, Aerospace and Information Security. In all, we launched

87 new training courses, including ten performance improvement courses and three Organizational Resilience workshops.

Our virtual classroom delivery platform, Connected Learning Live, went global during the year and we added to our franchise model by launching a European telesales hub in Spain.

For internet clients, we created a suite of 25 new e-learning core assessment competence modules and advanced product training in Food, Health and Safety, and Energy, to take our assessors, planners and sales people to the next level of performance in delivering the latest ISO standards.

REGULATORY SERVICES

Our Regulatory Services business stream comprises Systems Certification and Product Certification into the Medical Devices industry.

Revenue
£92.7m
2017: £73.5m

Growth
26%
(+29% at constant exchange rates)

Proportion of total revenue
18%
2017: 16%

As a result of the new reorganization of our business along business stream, rather than geographical, lines, we have created a new global business stream to cover those areas of business covered by regulations rather than voluntary standards. Currently this stream comprises solely Systems and Product Certification for the Medical Devices industry, but there are plans to expand this remit in future years.

The new stream brings together systems and product certification regulations for the industry as both parts are required to complete a conformity assessment to gain CE marking so that a medical device may be sold on the European market, or local equivalent certification schemes for other markets such as Japan and Malaysia. This side-by-side approach will improve client focus and service levels. It also permits a clear delineation in the management structure between notified body and compliance duties from any commercial activities.

As mentioned in the 2017 Annual Report, during 2018 we continued our efforts to open a new notified body in the Netherlands to mitigate potential impacts of the UK withdrawal from the European Union. We are pleased to announce that this notified body was opened in December 2018 and is now fully operational for those clients which insist that their certificates are issued in a country whose continued membership of the EU is not currently at risk.

Regulatory Services is a truly global business stream. Our clients are medical device manufacturers throughout the world and the pool of experts who undertake the review and certification on behalf of these clients may be based anywhere in the world. Indeed, we invoice clients in many countries, although the US remains our largest market. Certification for CE purposes is ultimately confirmed in our notified bodies in the UK and the Netherlands, but the client experience should be seamless regardless of their location. Due to this global nature, enormous reliance is placed on our information systems to ensure communication between all parts of our supply chain. In 2018 we initiated a large investment to review our business processes and enhance our efficiency through the use of IT systems. While this will continue into 2019, it has already resulted in more sustainable utilization of our resources and an increase in billable activity.

The Medical Devices industry is currently facing its biggest change in the past 25 years with the new EU Regulation on Medical Devices (MDR) replacing the old Medical Devices Directive (MDD) in May 2020. The timing of MDR is driving early renewals under MDD as many manufacturers are not ready to switch. This has generated high levels of additional demand in the market, particularly in the second half of 2018. These levels of demand are expected to continue in 2019, as the new regulation will also increase significantly the amount of time required to achieve certification. This increased demand has already led to several of our competitors not taking on new clients. Indeed, only a limited number of notified bodies have applied for designation under MDR, which will exacerbate future capacity issues in the market.

Partially as a consequence of this increased demand, our Regulatory Services business stream is, by far, the fastest growing of our four streams, with annual growth in 2018 a remarkable 29% at constant exchange rates. This growth underlines the market-leading position that BSI enjoys and the level of trust that our clients show in us to certify such vital products. This growth brings with it challenges, not least our ability to recruit and train sufficient highly qualified experts to undertake the detailed file review. We have invested significantly in new staff during 2018 to underpin our growth but face these resource constraints on a constant basis and so this recruitment drive will continue into the foreseeable future so that we can ensure that we are able to satisfy client demand.

We have worked hard in recent years to develop our market-leading position in the Medical Devices assurance market and are aware of the challenges that the market will be facing in the near future as global medical device companies attempt to secure certification under the new MDR requirement within the three-year time limit regulated by the EU. We expect to continue our growth trajectory as we satisfy this demand.

Business review continued

PROFESSIONAL SERVICES

Our Professional Services stream comprises two consultancy businesses, one on either side of the Atlantic Ocean, and a Supply Chain Solutions business, which itself comprises consultancy and solutions divisions.

Revenue
£76.6m
2017: £74.6m

Growth
3%
(+5% at constant exchange rates)

Proportion of total revenue
15%
2017: 16%

Consultancy

Environmental Health and Safety

Our Environmental Health and Safety (EHS) consultancy business in the US performed well during 2018 to deliver annual growth of 10%, at constant exchange rates, while continuing its restructuring. We grew our client base and remained the EHS partner of choice for many of the world's leading companies. Our business comprises several consultancies, acquired over recent years, which have been integrated since acquisition with the introduction of a common operating model to ensure best practice and deliver efficiencies. The business is now organized across three regions of the US, with technical practices ensuring professional expertise and industry best practice as we serve our clients domestically and overseas. New regional offices were opened during the year in New York, San Jose, California and Houston, Texas.

Our construction safety, industrial hygiene and environmental compliance services all saw particularly strong growth in 2018, reflecting market conditions in the Built Environment sector on both the East and West Coasts of the US. Other sectors such as Hi-Tech, Pharmaceuticals, Chemicals and Bio Pharma all developed well.

The revenue growth reported was not without its difficulties. Resource constraints were a challenge throughout the year as the battle for talent in a strong employment market created resource capacity issues as the year progressed.

The EHS offering continues to advance as more and more clients benefit from the integrated service approach. We have continued to invest in our Enhanced Consultancy model, which combines the power of software tools with our technical consultancy expertise, in order to satisfy this client demand.

Cyber Security and Information Resilience

Our UK and Ireland-based Cyber Security and Information Resilience (CSIR) consultancy practice had a more positive year in 2018 following its difficulties in 2017, although revenue fell by 2% at constant exchange rates as the business was refocused. The origin of this practice was in two acquisitions in 2016 and integration activities have continued since, with the Centre of Excellence for the business located in Dublin, Ireland, and back offices integrated into our larger UK Assurance Services business to obtain efficiencies.

In Ireland, now the headquarters of the business, and at an international level, the business developed well, mainly due to strong growth in testing and advisory work, including penetration testing, vulnerability management, incident management and Payment Card Industry Data Security Standard (PCIDSS) work. In addition, the business benefited from the increase in data protection services across General Data Protection Regulation (GDPR) consultancy and training services and significant data protection and privacy business following its enforcement in May 2018.

Moreover, following a strategy review in early 2018, the eDiscovery and Forensics business line performed well through the enablement of a more client-centric approach and the adoption of additional leading-edge technology solutions. While our Cloud Security Solutions business line in the UK did not achieve the same heights as 2017, we did make inroads into some of the largest UK public sector departments and continued to expand our products and services into the private sector to enable more clients to enhance their level of Information Resilience.

Good progress was made internationally with a solid base for growth developed in Italy and data privacy training provided in Germany, the Netherlands and a variety of countries in the Asia Pacific region.

Supply Chain Solutions

2018 saw our Supply Chain Solutions (SCS) business continue to grow and evolve as client requirements for increased visibility into their, largely subcontracted, supply chains accelerated. SCS revenue grew across all service lines: Consultancy, Verification and Software Tools.

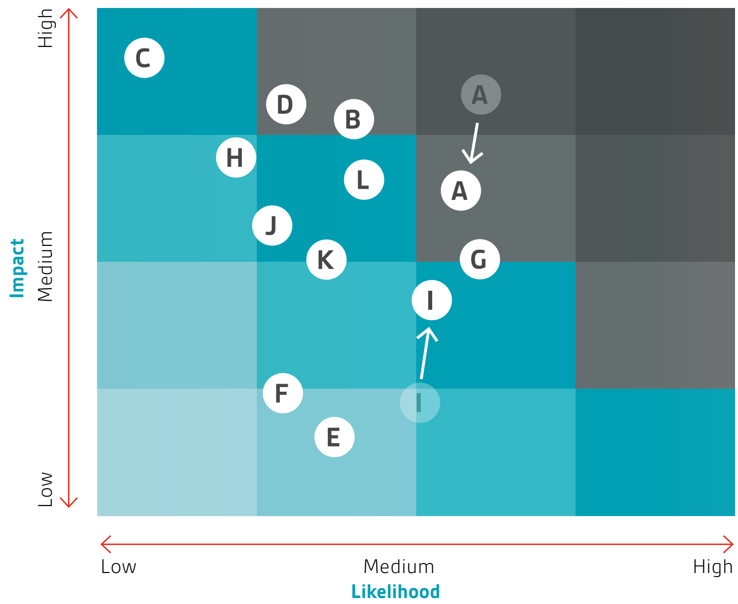
Consultancy Services saw significant expansion in 2018, with growth fuelled by client demand for security compliance programmes and increased activity in areas such as migrant labour, and anti-bribery and corruption (ABC). The powerful combination of our trusted consultancy services and our intelligence programmes opened up new and exciting opportunities for us in the insurance market, a new area for SCS.

The BSI Global Intelligence Programme had another excellent year, with the release of their fifth annual report in March 2018. In addition, the team published several papers with partner organizations, including the quarterly UK Cargo Theft reports with the National Vehicle Crime Intelligence Service (NaVCIS) and the semi-annual Global Cargo Theft report with TT Club Mutual Insurance. Other key areas of focus for the programme during the year included the smuggling of synthetic drugs and precursor chemicals in the international supply chain, the impact of new cargo regulations to security risks, the increased risks to labour rights in the US by recent Central American migration and the effect of corruption on food safety around the world.

Our software tools continued to deliver value to our clients and, in 2018, we finalized the technical requirements for the next generation functionality of these tools, which we expect to deliver in 2019.

Effective risk management

An inherent part of the business process.



What we did in 2018

Throughout 2018 we have continued to embed our enhanced process through a programme of risk workshops, training and risk reviews. Group Internal Audit and Risk conducts all internal audits on a risk basis, and supplements audits with secondees and subject matter experts where appropriate.

We were certified to ISO 27001 (Information Security) for our headquarters and Knowledge business in Chiswick, UK, and our Cyber Security and Information Resilience businesses throughout 2018. We provide mandatory annual training on Information Security globally throughout BSI for all employees and contractors, and we have embarked on the expansion of ISO 27001 compliance to our other locations.

We also continued to be certified to ISO 14001 (Environmental Management) and OHSAS 18001 (Occupational Health and Safety Management) for our Chiswick office during 2018. Business continuity plans are in place for each of our business locations worldwide, the majority of which were formally tested during the year.

Our anti-bribery and corruption policy is reviewed annually, and we provide mandatory annual training throughout BSI for all employees and contractors.

What we will do in 2019

Our Principal Risk Register, Strategic Risk Register and subsidiary risk registers will be regularly and systematically updated to reflect the external economic, political and social environment, the latest Group strategic plan initiatives and the reorganization of the business, and we will continue to implement and develop our programme of risk workshops, training and risk reviews at business stream, geographical, functional and project levels to embed and enhance still further our management of risk globally.

Further initiatives to provide assurance around information and cyber security risk will also be implemented, and we will continue to execute our plan to expand our ISO 27001 compliance globally throughout BSI.

We will broaden the scope of certification for our Health, Safety and Environmental Management Systems from our Head Office throughout the UK and will enhance our resilience with respect to Business Continuity and Crisis Management.

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 are integrated into key business processes from strategic planning to day-to-day performance management as well as into health, safety and environmental management. The Board also understands that it is responsible for the risk management system and for reviewing its effectiveness on an ongoing basis.

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 and functions, and countries, clusters and/or regions. Above these sit the Group Principal and Strategic Risk Registers.

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 Internal Audit and Risk department ensures 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, information security, business continuity and health, safety and environmental issues every year with the Group Internal Audit and Risk department and conducts a robust assessment of the principal risks. The Board considers the risk management system to be effective.

Principal risks and uncertainties continued

We consider that our Brexit risk decreased slightly during 2018.

Insurance

BSI maintains a global insurance programme covering all major insurable risks to the Group's business assets and operations worldwide. The insurance programme is regularly reviewed, and new lines of cover are introduced as required. In early 2019, we decided to expand our insurance portfolio to include cover for the immediate aftermath of a cyber security breach.

Changes to principal risks during 2018

We regularly reviewed and updated our Principal Risk Register during 2018, and the latest version of this register is shown in this report. No individual risks have been added or removed from the Principal Risk Register in 2018.

In our view, the principal risk relating to Brexit decreased slightly during 2018 as, although there continues to be uncertainty around the outcome of the negotiations ahead of 29 March 2019, when the UK is scheduled to leave the European Union, we have been able to establish an additional notified body in the Netherlands for Medical Devices and Product Certification. This permits us to continue to deliver our certification decisions throughout the United Kingdom and the European Union. In addition, we have successfully agreed transition arrangements with CEN and CENELEC, the European standardization organizations, and will remain full members of both post-Brexit.

We consider that the principal risk relating to resourcing has increased during 2018. We have experienced challenges in recruiting sufficient managers, sales, delivery and support staff to underpin our new organizational structure based on global business streams and sectors, particularly in those areas where we reported significant revenue growth in 2018, which we expect to continue into 2019 and beyond.

Type of risk	Risk	Mitigating actions	2018 change
1. Status			
A. Brexit	If the outcome of Brexit had an adverse effect on BSI, such as affecting our membership of CEN and CENELEC, or our ability to serve the European market as a notified body, this could reduce our ability to deliver our objectives, in particular in shaping European standards or providing market access. There continues to be macro-economic risk related to ongoing uncertainty.	We engage with the UK and other governments to ensure that our voice is heard during policy debates on mutual recognition arrangements with the EU. Relationships are built with European and international standards bodies and other stakeholders, so they are aware of, and value, our contribution. CEN and CENELEC have now separately agreed a transition period for their statutes until the end of 2020, including a derogation for BSI from certain eligibility clauses. A notified body has now been established in the Netherlands, which will allow us to deliver certification decisions from within the European Union.	Decreased
B. Government policy	We are recognized by the UK Government as the UK National Standards Body (NSB). If our status as NSB changed, this could reduce our ability to influence international standards. Much of the work we undertake is influenced by governments around the world. Changes to government policy, in any of the many jurisdictions in which we operate, could affect our delivery.	We engage with the UK and other governments to ensure that our voice is heard during policy debates. A regulatory compliance framework, including the NSB Code of Conduct, is in place, along with a compliance audit programme, to ensure that we observe our obligations as the UK NSB at all times.	No change
C. Royal Charter status	Our Royal Charter status is important as it allows us to do business independently and without external pressure. It is central to our purpose that we preserve this status.	We engage with stakeholders to ensure that we fulfil our obligations under the Royal Charter. We have adopted a governance regime which applies the principles of the UK Corporate Governance Code, where applicable, and actively review our compliance through Board and Executive Committees.	No change

Key No change Increased Decreased

Type of risk	Risk	Mitigating actions	2018 change
2. Compliance			
D. Accreditation compliance	A large percentage of the work we perform is governed by national and international accreditation bodies and government agencies. Loss of any of our accreditations would have a serious impact on our business.	We engage with our accreditation bodies and government agencies to ensure that any issues are dealt with before they risk the loss of accreditation or notified body status. A regulatory compliance framework is in place along with a compliance audit programme.	↔
E. Financial and fiscal 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 and policies and procedures in place throughout BSI. We have internal audit teams which regularly visit all locations. There is also an annual external audit of our financial results undertaken by PricewaterhouseCoopers.	↔
F. Legal action	Any breach of, or change in, legislation in a jurisdiction in which we do business could result in legal action against us. In addition, we could be held indirectly or directly liable for third-party claims arising at client sites or businesses.	Our legal team operates across the business and develops relationships with external law firms in each jurisdiction in which we do business to ensure that we are aware of forthcoming changes to legislation. Key employees receive relevant training on legal compliance, and compliance policies and procedures are in place across our organization.	↔
3. Business environment			
G. Change management	The achievement of our strategic objectives depends on the management of our growing business in a complex and changing global economic environment. Failure to manage the increasing pace of change in the growth and scale of our business, as well as the successful identification and integration of acquisitions, could jeopardize this.	Strategic plans, business plans and the annual budgeting and reporting process take the external economic environment into consideration and are scrutinized and approved by the Group Executive and Board. Appropriate governance and change management processes are in place to ensure the successful implementation of these plans.	↔
H. Competitor action	Technological or business model shift or other competitor action could threaten our competitive position in our chosen markets.	We seek new opportunities in all areas of our business. We monitor and analyse activity in our competitive landscape at local, regional and global level, with responses put into action as appropriate.	↔
I. Resourcing	An inability to develop, recruit or retain the right skills in the Group would mean that business performance may suffer, or opportunities are not exploited.	Recruitment and retention policies are reviewed regularly. Succession planning is in place at all levels of the organization to underpin the change in management structure, and regular gap analysis takes place to deal with any issues.	↗
J. UK pension scheme	Increases in the ongoing deficit associated with our 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, funding requirements and any opportunity to insure against this risk.	↔
4. Reputation			
K. Reputation and brand	Our reputation and brand are extremely important to us, and failure to protect these would undermine our ability to maintain and grow our business.	We reinforce our values, policies and processes with our employees, business partners and other stakeholders. We take robust action, where necessary, to protect our reputation and brand.	↔
L. Information security	Failure to protect against inadvertent loss of information assets or the threat of cyber-attack could adversely affect our trading, reputation and brand.	We are certified to ISO 27001 at our Group headquarters and are rolling out compliance to this standard across BSI. We are investing in our cyber security detection and prevention infrastructure and resource. All employees receive training on information security.	↔

Key ↔ No change ↗ Increased ↘ Decreased

Resilience in action: Built Environment

Tomorrow's world today

Creating trust in the Internet of Things.

By 2020

it is estimated that over a quarter of identified cyber security attacks will involve Internet of Things devices

65%

of Chief Executives see the Internet of Things as strategically important for digital transformation

Opportunity and potential

The Internet of Things is the network of internet connected and co-ordinated physical devices that can 'talk' to each other. It has the potential to deliver innovative solutions to enhance lives, create new experiences, drive efficiency and support the development of resilient organizations. It is forecast that there will be over 20 billion connected devices by 2020, and many Chief Executives see the Internet of Things as strategically important in digital transformation.

Reassurance

It is now more important than ever to be prepared for this exciting future and to reassure consumers that they can trust new technology, as they ask the inevitable questions about whether it is secure, if it will work as expected, how much it will cost, and whether it will deliver the promised benefits. We help our clients answer these questions and develop trust with their stakeholders.

Your partner

At BSI, we work as a trusted, independent convenor of communities to support innovation in the Internet of Things and the safe and reliable use of 'smart' applications, data and devices. Through our community of experts, we are at the forefront of shaping new opportunities and creating industry-led best practice. And in our state-of-the-art laboratory, we provide fast, effective testing and Kitemark certification and verification services for a wide range of products.

Standards review

Scott Steedman, Director of Standards

Maintaining the status of British standards

Agreeing a way forward has been a top priority for BSI.

Brexit

The uncertainty surrounding the UK's future trading relationship in Europe and around the world post-Brexit was a constant theme across the political, business and consumer community throughout 2018. Working with our stakeholders, BSI's aim, in its role as the UK National Standards Body (NSB), was to ensure that the opportunity for UK experts to influence the international and European standards that underpin the UK economy should not change regardless of the outcome of the political discussions with the EU. We had universal commitment from our stakeholders for maintaining the status of British standards as the single reference for regulators post-Brexit. Leading business organizations, including the Confederation of British Industry, Engineering Employers' Federation and British Chambers of Commerce, joined more than 30 other organizations in co-signing a letter with BSI urging the UK Government to maintain the present system of national standards in the UK as this would enable BSI to continue to represent the UK in the non-EU European standardization organizations, the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). In June the Secretary of State at the Department of Business, Energy and Industrial Strategy (BEIS) responded, urging BSI to take the steps necessary to maintain the high level of influence of UK experts in the international and European standards organizations where we are the UK member.

After many months of discussion, the national standards bodies across Europe agreed in November that the UK should continue as a full member of CEN and CENELEC post-Brexit. UK membership will continue as today while changes to the membership rules of both organizations are agreed and an independent assessment of BSI's performance as a member is undertaken in 2020.

Agreeing a way forward has been a top priority for BSI working with industry, consumer and government stakeholders and colleagues across Europe. With this decision in place, our expert committees and hundreds of thousands of organizations, using standards across the UK, will have some certainty in their planning for a post-Brexit future, at least in this aspect of their activity.

Standards development

As every year, the mainstream of BSI's standards development work continues to be the management of the national catalogue of around 37,000 British standards, which takes place under the guidance of 1,200 committees. At year end, the number of volunteer experts registered in our standards committees stood at over 12,000. We thank every committee member for their dedication and commitment to the work of the NSB, which ensures that UK participation in global standards development is sustained and that, as far as possible, international and European standards adopted as British standards reflect UK stakeholder interests.

We continue to work to increase the number and diversity of stakeholder representation and of committee membership. Their work is invaluable to ensure that the

'It was agreed in November that the UK should continue as a full member of CEN and CENELEC post-Brexit.'

UK maintains a consistent and coherent catalogue of national standards that reflects their interests and meets the needs of industry, government and consumers.

As in prior years, 95% of British standards published in 2018 were international and European standards, derived from our membership of the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC), CEN and CENELEC. Three examples illustrate the breadth and depth of our work in 2018 in formal standardization activity.

BSI Standards Forum and Awards, November 2018.

First, 2018 saw the publication of the long awaited international standard ISO 45001 (Occupational Health and Safety Management), which was derived from the widely used OHSAS 18001 standard. The UK led the work in the OHSAS consortium and it was BSI that submitted the proposal into ISO to use OHSAS 18001 as a base document. The new ISO standard now ranks alongside other leading management system standards, representing a major contribution by the UK to support business performance improvement around the world.

Second, BSI's sector experts have been at the forefront of work with government, industry and other stakeholders to support the digitalization of the construction industry through the development of standards on Building Information Modelling (BIM). The new ISO standards on BIM, which completed their development cycle in 2018, are based heavily on the British standards BS 1192 and PAS 1192-2. A dedicated web portal supports design, construction, operation and maintenance activity, data exchange, cyber issues, health and safety information and asset and facilities management. The transition of the 1192 series into ISO is a further important example of UK influence on global standards.

Third, as part of our work in the financial services sector, we launched a new standardization programme in sustainable finance, supporting government ambitions to show global leadership in the move to a low carbon economy. The work will see BSI develop a series of PAS documents and lead their internationalization in ISO via a new technical committee, which BSI will lead. The programme was commissioned by the Clean Growth Strategy team in BEIS, with co-funding for the PAS documents coming from the City of London's Green Finance Initiative.

'Hundreds of thousands of organizations will have some certainty in their planning for a post-Brexit future.'

Support to the national infrastructure

BSI's relationship with BEIS, in our role as the NSB, switched to the new Office of Product Safety and Standards (OPSS) early in the year. An early success with OPSS was the launch of PAS 7100 in March. PAS 7100 is a new guidance document which helps businesses of all sizes to prepare and manage a safety related product recall. We worked with BEIS on the major training programme that followed to inform local authorities and encourage adoption.

In addition to working with UK Government departments, BSI was also very active during 2018 giving evidence and presenting to parliamentary bodies about the role of standards to support technological and economic challenges and on the impact of Brexit. They included the All-Party Parliamentary Groups (APPGs) on Infrastructure, Digital Identity, Artificial Intelligence and Blockchain, the House of Lords Select Committee on Science and Technology and the Committee on Artificial Intelligence.

BSI's Consumer and Public Interest network grew strongly in 2018. We increased our network of strategic contacts from the UK consumer landscape and nearly doubled the number of consumer representatives in our committees to around 50. With support from BEIS we improved access to British standards for the UK's local authority trading standards departments. By the end of the year, more than 880 trading standards officers had registered for the system.

Supporting innovation in the UK

Financial technology 'fintech' growth

BSI published new guidance to help improve collaboration between fintech companies and financial institutions. PAS 201:2018 (Supporting fintechs in engaging with financial institutions) aims to accelerate fintech growth and reinforce the UK's place as a global centre of innovation in financial services by clarifying the onboarding process for fintech companies and financial institutions alike.

Digital manufacturing

The joint government–industry 'Made Smarter' initiative, chaired by Juergen Maier, CEO of Siemens UK, was launched in 2018 to accelerate the roll-out of digital manufacturing. Funded by Innovate UK, BSI has been supporting Made Smarter by publishing PAS documents that help manufacturing small and medium-sized enterprises (SME) reduce their exposure to cyber-attack and loss of intellectual property, and to adopt good practice in developing new and innovative service-based business models. We also published a standards roadmap aimed at the medicines sector with the Institute for Manufacturing at Cambridge University to accelerate adoption of digital technologies by manufacturing supply chains.

Standards review continued

Supporting innovation in the UK continued

Connected and Autonomous Vehicles (CAV) standards programme

Supported by the UK Government's Centre for Connected and Autonomous Vehicles, in 2018 we launched a new, two-year standards programme to accelerate the safe deployment of CAVs in the UK. BSI will work in conjunction with Innovate UK, Meridian, BEIS and the Department for Transport to establish and deliver a programme of UK-led standards that support the development of CAVs in the UK and shape the development of international standards in the CAV space for the future.

2018 also saw the publication of PAS 1885, which specifies the fundamental principles of automotive cyber security through the full lifecycle of CAV development, from design to operation and servicing.

> 'We thank every committee member for their dedication and commitment to the work of the NSB.'

Supporting international technical assistance (TA)

A highlight of the year was the launch in April of the new Commonwealth Standards Network (CSN) by the UK Prime Minister, Theresa May, at the Commonwealth Heads of Government meeting in London. The idea of the network was proposed by BSI to the Department for International Development (DfID) in 2017 to increase use of international standards to support intra-Commonwealth trade and to accelerate poverty reduction. Thirty countries have joined the network to date, which will also oversee three DfID funded TA projects in Oceania, Africa and the Caribbean.

In addition to the CSN projects, BSI's International Projects team has continued to win contracts with the European Commission (EC). For the third consecutive year, experts provided technical assistance to the EC for the verification of the quality of the monitoring reviews of the EC's development projects around the world. In November, the European Commission renewed the contract for another year.

Our technical assistance work on the EU-funded Trade and Domestic Market Enhancement Programme, which aims to improve Egypt's national quality infrastructure and enhance cross-border trading prospects, continues. During 2018 BSI delivered more than 1,000 training days, formulated five industrial-sector strategies, organized study tours to the UK, provided assistance to their national laboratories and delivered organizational development initiatives benefiting Egypt's National Standards Body and affiliated bodies.

Supporting international trade

The UK–China Standardization Cooperation Commission, which was agreed by BSI and the Standardization Administration of China in 2015 to support UK–China trade met in Hangzhou in June. Technical discussions focused on bilateral work programmes in smart cities, civil nuclear energy and graphene. China is a permanent member of the governance of ISO and the IEC, working alongside BSI, and we held multiple bilateral meetings during the year to share policy positions regarding our common interests in both international organizations.

Alongside our formal engagement with other countries through ISO and IEC, we work very closely with many countries bilaterally to pursue areas of mutual interest. During 2018, our Standards Policy team held over 40 meetings with other NSBs, where we exchanged policy positions and experiences with market regulation and debated new and emerging areas of standardization.

We signed new Memoranda of Understanding with standards organizations from Japan, Canada and Singapore, increasing interaction with these strategically important partners to support the UK's future trading relationship.

International influence

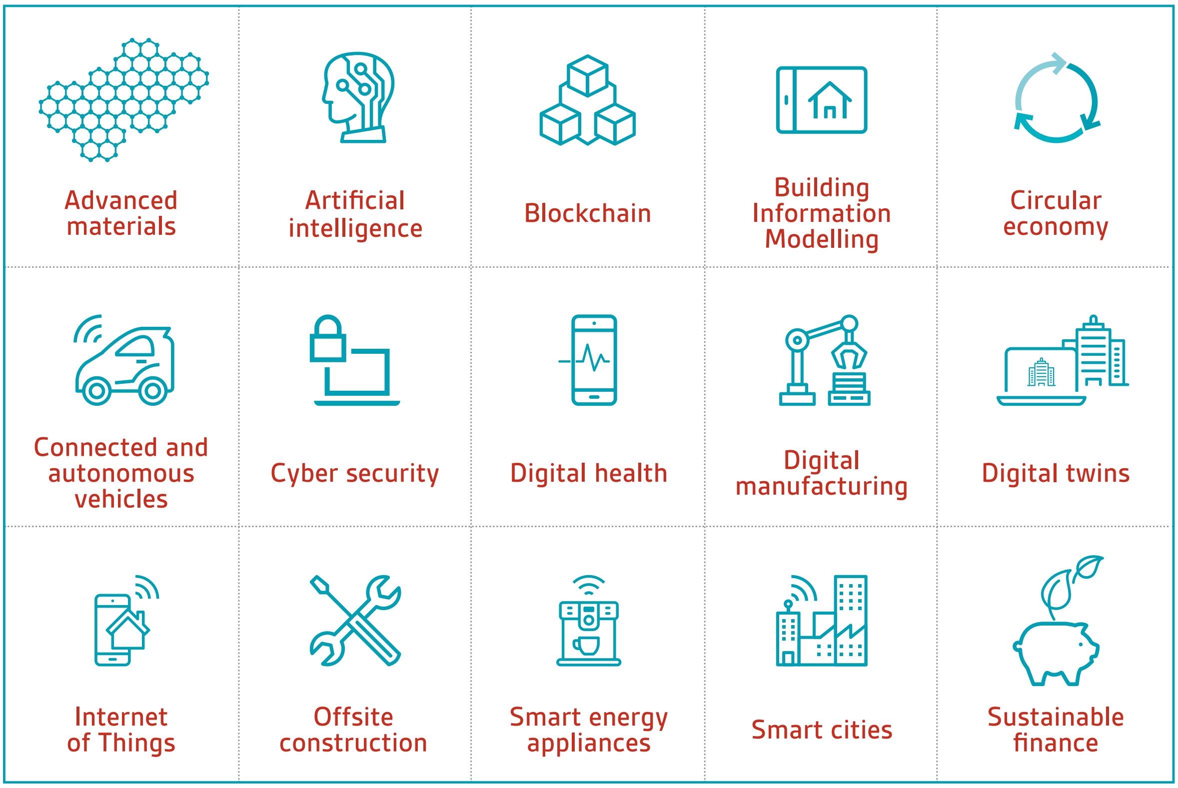
BSI is the UK member of both ISO and IEC and is extremely active in both and their European counterparts CEN, CENELEC and ETSI. 2018 was my first full year as Vice-President (Policy) for ISO and as Secretary of the UK National Committee of the IEC.

> 'A highlight of the year was the launch of the new Commonwealth Standards Network by the UK Prime Minister.'

The International Telecommunications Union is the third of the international standardization organizations recognized by the World Trade Organization of strategic importance to the UK. Throughout the year BSI provided policy advice to the Department for Culture, Media and Sport as the UK member, on areas of work that may overlap with ISO and IEC.

2018 was the second year of operation of BSI's Electrotechnical Standardization Strategic Advisory Council (ESSAC), which provides BSI with senior level industry advice on policy and strategy and fulfils the function of the National Committee of the IEC and of CENELEC. With strong support from ESSAC, the UK had a high-profile presence at the 2018 IEC General Meeting in Busan, South Korea. More than 80 UK delegates participated in the various governance and technical meetings. Seventeen UK experts received the prestigious IEC 1906 award for exceptional contribution to electrotechnical standardization.

ISO elected its first President from Africa in September, Eddy Njoroge from Kenya, who will take over from the current President, John Walter from Canada, in 2020. BSI has been very active in ISO governance throughout 2018, with members of the Standards Policy team sitting on the Council, the Technical Management Board and many sub-committees. ISO Council accepted BSI's invitation to hold its General Assembly week in the UK in 2021, coinciding with the 75th anniversary of the meeting in London which led to the foundation of the organization. The UK has not hosted the ISO General Assembly since 1996.



BSI's future standards programme, accelerating innovation.

BSI maintains relations with many other standards developing organizations that work internationally, particularly those based in the US. During 2018 we strengthened our co-operation with standards organizations including the Association for the Advancement of Medical Instrumentation, the World Wide Web and the Institute of Electrical and Electronics Engineers (IEEE) Standards Association. BSI has been working with the IEEE as one of ten founder members of an Open Community for Ethics in Autonomous and Intelligent Systems which brings together organizations interested in the development and use of standards to address ethical matters in autonomous and intelligent systems.

Standards development and product innovation

During 2018 we formally launched our agile standards development programme, which is aimed at ensuring BSI's standards outputs and tools can continue to meet the changing requirements of standards makers and users. We recognize the need to broaden our portfolio of standardization outputs to include consensus documents that can support fast moving areas and innovation in products and services. In 2018 we ran a successful pilot using an iterative development technique to develop standards for the Internet of Things. Other pilots were carried out, using new virtual platforms, to capture user requirements and to test our community management skills and capability to develop new tools for future standards development.

BSI's product development team has been working to transform our digital knowledge solutions to maximize the value that organizations receive from using standards. Major projects began in 2018 to rebuild BSI's retail and subscription services to be fit for purpose for the future. A successful 'digital-first' solution was launched to support the publication of ISO 45001. Work has also commenced on upgrading BSI's Compliance Navigator for Medical Devices.

Our transition to digital content publisher has continued. Benefits to users include speed, as the British national adoption of key standards can now be published on the same day as the international or European standard, and the ability to provide supporting content features and functionality to aid users with their implementation.

In conclusion, it is fair to say that 2018 was a challenging but successful year for the National Standards Body. Progress was strong in many areas and, thanks to the efforts of the many thousands of people who contributed to our success, we remain well-positioned to serve UK industry, government and society into 2019 and beyond.

Scott Steedman
Director of Standards
20 March 2019

Financial review
Craig Smith, Group Finance Director

Long-term financial resilience

We invested heavily in resource and infrastructure during 2018, to support the new management structure of BSI that was implemented during the year.

Overview

BSI delivered strong financial results again in 2018, with record levels of revenue and profit, and increases to the cash and deposits balance and the net asset value of the balance sheet, continuing the long-term financial resilience of the business. 2018 was a fairly quiet year for the global trading environment. Although significant uncertainty remained in the UK market from the continuing negotiations on the terms and conditions under which the UK will eventually leave the European Union, this did not appear to have a material effect on trading. Along with our competitors, BSI has benefited for the three-year period from September 2015 to September 2018 from the additional work generated from the transition to a new version of its most important standards, ISO 9001 (Quality Management) and ISO 14001 (Environmental Management). Of course, only eight and a half months' revenue resulted from this transition in 2018, compared to the full twelve months in 2017. On average, Sterling maintained a level similar to 2017 against our major trading currencies but was weaker at year end than it started 2018.

BSI is fortunate in having a very broad spread of business across business streams, geographies, sectors and domains. As such, our overall results are less susceptible to shifts in macro-economic trends. In 2018, we were able to report higher levels of revenue and underlying profit than ever before in the long history of BSI. In addition, the Group's net asset value increased, and the deficit of our UK defined benefit pension scheme fell during the year, predominantly due to a change in discount rates used to calculate the future liability of the scheme, and contributions to the scheme made by BSI. We ended 2018 with significant funds in the bank and no external debt. BSI remains in robust financial health.

Exchange rates

BSI reports its results in Sterling and, as an international business, is affected by movements in exchange rates of other currencies, particularly our major trading currencies of the Australian Dollar, Chinese Renminbi, Euro, Japanese Yen and US Dollar. We mitigate the effect of this by matching revenues and costs in these currencies wherever possible and by repatriating excess currency back to the UK as soon as we are able to, so that it may be invested.

We translate our balance sheets into Sterling at year-end exchange rates. For our income statement we use a weighted average rate. The exchange rates we used for our major trading currencies in 2018 can be seen in the table on page 40.

'We are fortunate to have a broad spread of business across business streams, geographies and sectors. This means that our results are less susceptible to shifts in macro-economic trends.'

Revenue

BSI Group revenue increased by 8% in 2018 to £511.9m (2017: £473.0m). Organic revenue growth at constant exchange rates was 10%, broadly in line with the growth rates reported every year from 2014 to 2017. This was mitigated by a reduction of 2% due to changes in the average values of our trading currencies against Sterling between 2017 and 2018. The overall growth meant that our underlying revenue continued its trend of increasing every year since 1999 and was at its highest level in the 117-year history of the Company.

Underlying revenue

£511.9m

+8%

As reported by the Chief Executive, we reorganized our business during 2018 and, as a result, now report business streams as our primary segmental analysis. We no longer report geographical segmental analysis. On this basis, each of our business streams reported revenue growth in 2018. Our Knowledge stream grew by 7% (7% at constant exchange rates), our Assurance Services stream by 5% (7% at constant exchange rates), our new Regulatory Services stream by 26% (29% at constant exchange rates) and our Professional Services stream by 3% (5% at constant exchange rates). 2017 revenue numbers, where necessary, have been restated to reflect the new structure and to give comparable comparative figures. Further details of the performance of the streams are given in the Business review on pages 23 to 26.

Underlying operating profit

In recent years we have invested heavily in the infrastructure and resource of BSI and built a stable platform for profitable growth. Indeed, in 2018, these investments reached new heights as we invested in infrastructure to support the new management structure of BSI, and in resource to man the new structure and support increased levels of demand from clients in all of our business streams, but especially in Regulatory Services, where revenue grew by 26%. Despite this significant investment, which will drive profits in the future but was a net cost in 2018, underlying operating profit (UOP) increased by 4% from £59.5m in 2017 to £61.8m in 2018. UOP is now at the highest level reported by the Group in its history.

As with underlying revenue, there are three components of this increase. Organic UOP at constant exchange rates grew by 5% (2017: 16%), our 2017 and 2018 acquisitions contributed 1% (2017: 2%) and there was an exchange loss due to the change in value of Sterling between 2017 and 2018 of 2% (2017: 1% gain). The 2018 UOP benefited from a credit of £2.0m relating to the treatment of the incremental costs of obtaining contracts, according to the new provisions of IFRS 15 (Revenue from Contracts with Customers) (2017: £nil).

At an overall Group level our gross profit margin increased from 46.6% in 2017 to 46.9% in 2018. In a group of companies such as BSI, with such a wide geographical spread and diverse blend of business streams, product mix can have an impact on overall margins. Our Regulatory Services business stream, which was the fastest growing of our streams in 2018, benefits from an above average gross profit percentage, while our Professional Services stream, which grew more slowly, has a naturally lower gross profit margin. The overall impact of this was a slight increase to the margin, reversing the trend of recent years when a small decrease has been reported.

Selling and distribution costs grew faster than revenue, increasing by 11% on their 2017 value. This increase reflects the high level of investments in 2018 in this area, to develop our new global business stream structure, to establish management in our chosen focus sectors and to invest in sales resource across the world. New sales orders increased by 12% in 2018 at constant exchange rates, faster than the equivalent revenue growth of 10%, which augurs well for the future. Administrative expenses also increased by 11%, and depreciation and amortization increased to £12.5m (2017: £11.8m), both again reflecting the levels of investment in the business during the year. Net foreign exchange losses, resulting predominantly from the repatriation of funds to the UK in line with our treasury policy, were £0.3m in 2018 (2017: £1.6m). Sterling was, on average, slightly stronger than in 2017, although this trend had reversed by year end, when Sterling was weaker against the majority of our major trading currencies than it had been twelve months previously.

In the selling and distribution costs of the 2018 consolidated income statement, we have included a credit of £2.0m (2017: £nil) relating to IFRS 15, (Revenue from Contracts with Customers). According to this accounting standard, incremental costs of obtaining contracts, such as commissions earned by sales representatives are no longer expensed during the year they are earned but, instead, are amortized over the expected life of the client for the business won. This has resulted in a lower cost in 2018 and a balance of contract costs held on the balance sheet to be amortized in future years.

Underlying operating profit

£61.8m

+4%

These levels of gross profit and selling, distribution and administration costs resulted in an underlying operating profit of £61.8m (2017: £59.5m) as explained above. This gives rise to an underlying operating profit margin of 12.1%, lower than the 12.6% reported last year due to the higher levels of investment made during 2018, whose benefits will be enjoyed in future years.

Financial review continued

Exceptional items and operating profit

The consideration paid for all of our recent material acquisitions has included some element of deferred amount payable to employees three years after the acquisition date should certain employment criteria be met at this time. This amount is accrued over the three years following the acquisition. These costs of £1.7m (2017: £2.9m) have been separately reported as an exceptional item in the 2018 accounts. There were also other acquisition costs of £0.2m (2017: £0.4m).

In 2018 we completed the reorganization of the business announced in the 2017 Annual Report. Costs relating to this reorganization amounted to £0.9m (2017: £0.7m) and are reported as an exceptional cost. In addition a cost of £2.5m (2017: £nil) was recognized in exceptional items, relating to the Guaranteed Minimum Pension (GMP) equalization exercise undertaken on the UK defined benefit pension scheme.

As a result of the above, the total exceptional costs in 2018 were £5.3m (2017: £4.2m). This meant that our operating profit for the year was £56.5m, an increase of 2% over the 2017 figure of £55.3m.

Finance income and costs

The Group continued its policy of repatriating excess cash to the UK as soon as possible and investing its cash reserves proactively during 2018 but finance income continued to be low due to the current prevailing interest rates at which we were able to invest. As a result, finance income was £0.5m (2017: £0.2m). BSI has no debt and so our finance costs related predominantly to the net interest cost on the liability of our UK defined benefit pension scheme and were £1.9m in 2018 (2017: £2.5m). Profit before tax increased by 4% from £53.0m in 2017 to £55.1m in 2018.

Taxation

The Group effective tax rate (ETR) on profits before tax in 2018 was 29.2% (2017: 30.6%). Eliminating the prior year adjustments arising on underprovided UK and foreign tax the current year ETR was 29.0% compared to 27.9% last year.

Effective tax rate on underlying operating profit

27.9%

-0.1 ppt

However, we consider the ETR on UOP, which excludes the tax impact of the financing costs and exceptional items, to be a better indicator of the tax management of the operating businesses. In 2018 the ETR on UOP was 27.9% (2017: 28.0%). The mix of the differing tax rates between the countries in which we make our profit can create fluctuations in the overall rate.

'A Banking Committee ensures that all treasury activities are conducted in accordance with Group treasury policies approved by the Board.'

Balance sheet and cash flow

The net asset value of the Group increased by £58.0m or 48% in 2018, from £120.3m to £178.3m. The main contributors to this were the profit for the year of £39.0m (2017: £36.8m) and the decrease in the deficit of the UK defined benefit pension scheme of £18.3m (2017: £14.1m).

Net asset value

£178.3m

+48%

BSI remained highly cash generative during 2018, with cash generated from operations, before contributions to the UK defined benefit pensions scheme, of £63.6m (2017: £61.3m). A net £0.6m was spent on acquisitions in 2018 (2017: £1.9m) but, despite this outflow and our significant capital expenditure during the year, we ended 2018 with zero debt and £86.8m as cash and deposits (2017: £67.8m). This means that, in 2019, we are again well placed to fund any prospective acquisitions or other investments internally. Our purchases of property, plant and equipment and intangible assets were £10.9m in 2018 (2017: £10.8m). We continued to invest in our information and communications technology infrastructure as well as in more client-facing programmes such as British Standards Online (BSOL), the BSI eShop website, our Compliance Navigator product, Entropy Software and Supply Chain Solutions offerings. Included in this capital expenditure figure was an investment of £0.7m in the development of new training courses (2017: £0.6m).

Debtor days increased slightly during 2018 to 62 days (2017: 61 days). This Group average depends on the geographical, business stream and industry sector mix of our revenue and the customary terms of trade

Cash generated from operations

£50.1m

+5%

encountered in our different markets. There is also, occasionally, a push from some of our clients to receive longer payment terms. These are sometimes granted for commercial reasons. However, there were no significant bad debts during 2018, with receivables written off amounting to £1.0m (2017: £1.4m) and no material change in the relative ageing of our outstanding trade receivables.

Pensions

The deficit of the Group's UK defined benefit pension scheme decreased by £18.3m, or 20%, from £90.0m to £71.7m during 2018.

A contribution was made to the scheme during the year, in accordance with the schedule of contributions agreed with the Pension Trustee, of £13.5m (2017: £13.5m). There was a net interest cost of £1.9m (2017: £2.5m) and operating expenses of £0.5m (2017: £0.6m) recognized in the consolidated income statement, along with a £2.5m (2017: £nil) exceptional cost relating to the Guaranteed Minimum Pension (GMP) equalization exercise. A re-measurement gain of £9.7m (2017: £3.7m) was recognized in the consolidated statement of comprehensive income, arising mainly from changes in financial assumptions.

UK defined benefit pension scheme deficit

£71.7m

-20%

The discount rate used when calculating the liability of the pension scheme is determined by reference to market yields on high quality corporate bonds. The discount rate used in 2018 was 2.85%, an increase of 0.4 percentage points on the rate used last year (2017: 2.45%). This increase in the discount rate accounted for the vast majority of the decrease in the value of the scheme liabilities. We seek to be close to the midpoint in the range of possible market assumptions in the valuation of the assets and liabilities of the pension scheme and confirm this with our external advisors each year.

The Group remains committed to reducing this deficit and works closely with the Pension Trustee Board to do so. A triennial valuation of the scheme took place with an effective date of 31 March 2016 and a schedule of contributions was agreed with the Trustee that is expected to eliminate the deficit by 31 March 2023. This schedule required contributions of £40.5m in the period 2017 to 2019 inclusive. A payment of £13.5m was made into the scheme in March 2018, satisfying the Group's obligations under the schedule of contributions for the year, and a further payment of £13.5m will be made into the scheme in March 2019.

In addition to the UK defined benefit pension scheme the Group operates small defined benefit pension schemes in Taiwan, Germany, Indonesia and the Philippines which provide benefits based on final pensionable salary and service. The net liability recognized on the balance sheet in relation to these schemes at 31 December 2018 was £1.9m (2017: £1.4m) and a contribution of £0.2m (2017: £nil) was paid into these schemes during 2018.

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.

Cash and deposits

£86.8m

+28%

BSI continued to be highly cash generative and held cash and deposits of £86.8m at the end of 2018. This was up 28% from the equivalent figure at the end of the previous year (2017: £67.8m). During the year there was net cash expenditure on acquisitions of £0.6m (2017: £1.9m), capital expenditure of £10.9m (2017: £10.8m) and a contribution to the UK defined benefit pension scheme of £13.5m (2017: £13.5m). Although the Group is debt free, it recognizes the occasional need for external funding and held bank overdraft facilities of £2.7m (2017: £2.6m), on an unsecured basis, at the end of 2018, 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 we consider this to be low.

The Group has significant operations outside the UK and so has exposure to currency fluctuations. Note 3 to the consolidated financial statements shows the translational 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 by 10% against Sterling in the same direction, the impact to UOP would be around £3.2m (2017: £2.8m).

Accounting policies

Details of all the principal accounting policies used by the Group appear in Note 2 to the consolidated financial statements. The Group has implemented IFRS 9, (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) with effect from 1 January 2018. Full details appear in Note 27 to the consolidated financial statements.

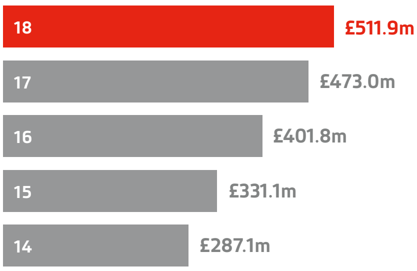
Craig Smith
Group Finance Director
20 March 2019

Exchange rates

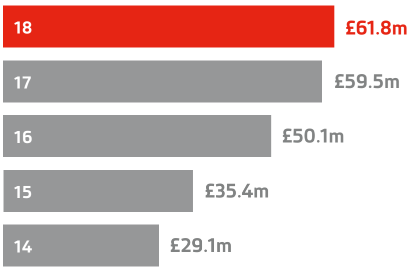
	Year end 2018	Year end 2017	**Average 2018**	Average 2017
Australian Dollar	**1.79**	1.72	**1.79**	1.69
Chinese Renminbi	**8.67**	8.79	**8.83**	8.75
Euro	**1.10**	1.13	**1.13**	1.14
Japanese Yen	**140**	152	**147**	145
US Dollar	**1.27**	1.34	**1.33**	1.30

Financial KPIs

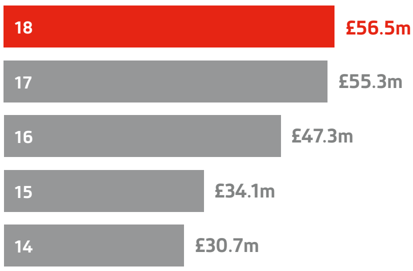
Revenue
£511.9m
+8%



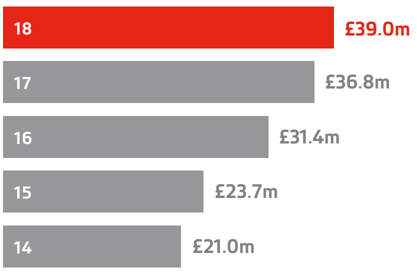
Underlying operating profit
£61.8m
+4%



Operating profit
£56.5m
+2%

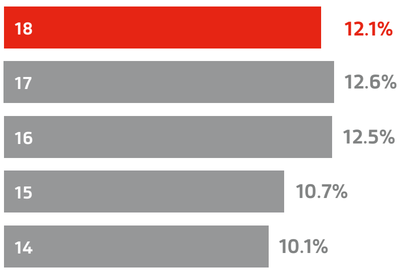


Profit for the year
£39.0m
+6%

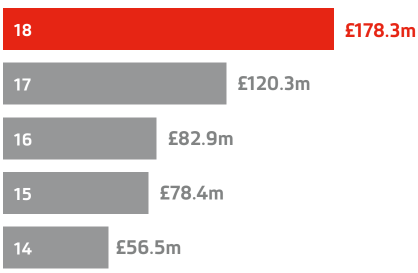


Gross profit margin
46.9%
+0.3ppt

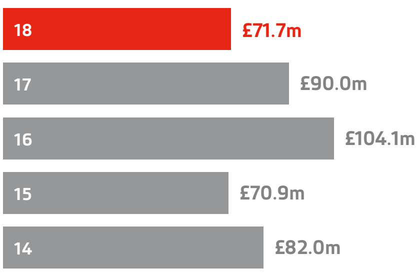
Underlying operating profit margin
12.1%
-0.5ppt



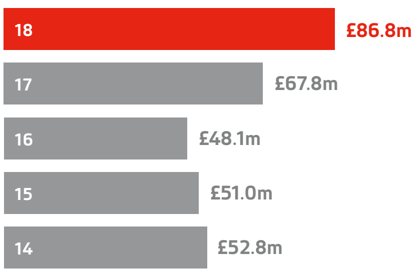
Net asset value
£178.3m
+48%



UK defined benefit pension scheme deficit
£71.7m
-20%



Cash and deposits
£86.8m
+28%



Social responsibility review

Stephen Page, Chair of the Social Responsibility Committee

Enabling a resilient world

At BSI, we are committed to ensuring that social responsibility remains an intrinsic element of our business, so that we make decisions and act today to enable a better, more resilient, world for present and future generations.

Our commitment

Being socially responsible is about being accountable for the impacts of our decisions and activities on society and the environment through transparent and ethical behaviour. A socially responsible business is a more resilient business and contributes to sustainable development. At BSI, we are committed to ensuring that social responsibility (SR) remains an intrinsic element of our business, so that we make decisions and act today to enable a better, more resilient, world for present and future generations. I was delighted to assume the role as Chair of the Board's SR Committee in April 2018, and am pleased to share our highlights of the year and the progress that we are making to enable a resilient world.

Our approach

Responsibility to business and society has been a part of our role since our inception in 1901. We pride ourselves on our ethical approach to everything that we do. Our Code of Business Ethics and strong governance framework underpin this. We use ISO 26000 (Guidance on Social Responsibility) to steer us, as well as our corporate values and excellence behaviours. Social responsibility continues to be an integral part of our strategic plan under the banner 'Enabling a resilient world' and in January we re-launched our Social Responsibility Commitment to reflect this theme. We are also proud to be a signatory of the UN Global Compact, joining at the end of the 2018. Our first communication on progress against the UN Guiding Principles will be published in next year's Annual Report.

Our business

SR is an integral part of our business and we seek to lead by example. Our aim is to integrate SR further into the way we go about our own day-to-day business and encourage others to do the same.

It is our policy to implement appropriate relevant standards to enable our own resilience as part of our ongoing business. In addition to the guidance of ISO 26000, we adopt the principles of ISO 9001 (Quality Management), ISO 14001 (Environmental Management), ISO 45001 (Health and Safety Management), ISO 22301 (Business Continuity Management), ISO 27001 (Information Security) and BS 65000 (Organizational Resilience) and seek independent assurance where relevant and appropriate. In 2017, we reviewed the level of compliance to these standards and developed a plan to enhance the level of assurance in higher risk areas of our business. We are progressing well against this plan. We are currently certified to ISO 9001, ISO 14001, BS OHSAS 18001, and ISO 27001 for our Corporate Centre and Knowledge business. We are planning to extend the scope of our environmental and health and safety certification, upgrading to the new ISO 45001, to cover all our UK businesses, by 2020. We are also planning to extend the scope of ISO 27001 certification to include all our business streams, internal supporting functions, and additional sites in EMEA, the Americas and Asia Pacific.

At the end of 2017 we updated our SR Code of Conduct and issued a Group SR Procurement policy. Over 80% of our employees have completed a test of understanding of these documents. New starters are also required to complete this test of understanding, along with tests and training on the Code of Business Ethics, the Health, Safety, Environment, Quality (HSEQ) & Sustainability policy, anti-bribery and corruption, competition law and information security. We have communicated our Social Responsibility Code of Conduct, which details our

Social responsibility review continued

'BSI aspires to be a great place to work, a business that talented people want to join and where they can grow their careers. Our aim is to create a supportive culture where every person feels enabled to be the best that they can be.'

Our business continued

zero-tolerance approach to modern slavery with over 80% of our suppliers in line with the provisions of the Modern Slavery Act (2015). We have also started to work with those business partners we have identified as potentially higher risk, to understand and assess their approach to social responsibility and help implement improvements where required. Further information about our approach to tackling modern slavery, can be found in our Slavery and Human Trafficking Statement on the BSI website: www.bsigroup.com/social-responsibility.

In December, we conducted a global internal audit, covering aspects of our SR Code of Conduct relating to whistle-blowing, human rights, slavery and labour practices, environment and community involvement and development. We will review the recommendations from this audit and act as necessary to ensure that we continue to perform to our high standards. Other aspects of the Code are reviewed as part of the regular internal audit schedule.

We recognize that we can also encourage others to integrate SR into their own organizations. BSI continues to develop products and services to enable the resilience of others. BSI advises organizations on ISO 26000 guidance programmes, diversity and inclusion programmes, measuring environmental metrics and developing their SR implementation programmes, and sustainability supplier audits. We held a leadership position in the development of ISO 45001, the first international standard for occupational health and safety management systems, which used British standard BS OHSAS 18001 as a base document and was published in 2018.

Colleagues from the UK built cycles as part of a team-building exercise. The bikes were then donated to the Career Ready charity.

BSI has also been influential in the revisions of the world-leading standards on Food Safety (ISO 22000), Energy Management (ISO 50001) and Accessible and Inclusive Buildings (BS 8300), as well as developing new products to enable Sustainable Cities and Communities (ISO 37106), Wellbeing of Workers (PAS 3002), and Effective Age Checks to Protect Children from Viewing Adult Content Online (PAS 1296).

Our people

BSI aspires to be a great place to work, a business that talented people want to join and where they can grow their careers. Our aim is to create a supportive culture where every person feels enabled to be the best that they can be.

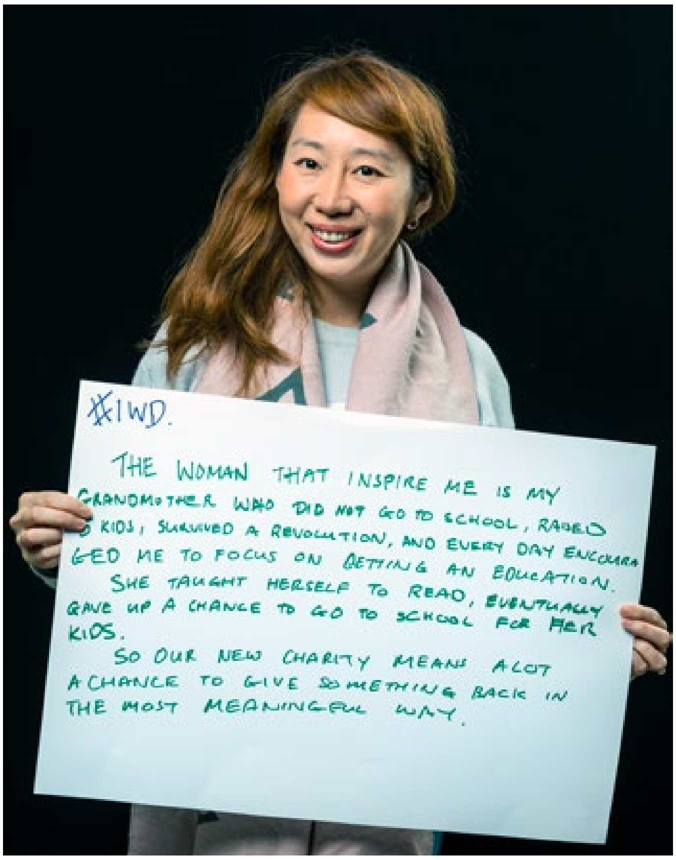
We continually seek to engage colleagues' views to ensure we continue to be an employer of choice. At the end of 2017, we undertook a global employee engagement survey, run by an independent specialist. Over 78% of colleagues globally responded and our employee engagement score increased from the

Colleagues wore green to help celebrate Mental Health Awareness Week in October 2018. Many activities took place during the week to encourage an open and inclusive culture.

Interns from local schools visited the BSI headquarters in Chiswick.

Career Ready UK partnership

We have started to develop a partnership with Career Ready, a UK charity that supports students from disadvantaged backgrounds prepare for the world of work. In 2018, we provided four paid internships for Career Ready students and also donated a number of bicycles that were built as part of a BSI team-building exercise. We funded the participation of two local schools in the scheme for the 2018/19 academic year and hosted the students for an insight day at BSI Headquarters. In 2019, a number of our colleagues will deliver workshops with students or act as mentors for some Career Ready students.



Colleagues worldwide celebrated International Women's Day.

previous survey in 2015. The results showed that colleagues are proud to work for BSI and believe we make a positive difference. Throughout 2018, BSI has continued to listen to understand areas identified by employees for improvement and take action as appropriate. Two of the areas identified were 'Wellbeing' and 'Giving Something Back'.

We remain committed to ensuring the health and wellbeing of all our colleagues globally. We understand that colleagues who have a stronger wellbeing for their health, wealth and career are happier, perform better, will choose to remain with us for longer and are better able to driver greater business results and deliver excellence to clients. Our focus is therefore on creating an environment that boosts an individual's physical and mental wellbeing and enables every colleague to perform at their best every day.

In partnership with a global wellbeing provider, we are ensuring that all our colleagues have access to a global employee assistance programme as well as a wide range of resources designed to support them in their physical, mental and financial wellness. This year saw us recognize, for the first time, Mental Health Awareness Week across the Group, to encourage an open and inclusive culture where it is seen as positive to discuss mental health. Activities during the week included walk and talk sessions, webinars and a variety of resources and activities available to all our colleagues.

We continue to invest in technology to ensure that we provide a working environment where our colleagues can reach their potential, as well as investing in our employees' careers. SR is now seen as such an integral part of our organizational DNA that we have also included a specific SR session in our new starter induction. In addition to celebrating our achievements through local recognition schemes, each year, we celebrate the success of our colleagues through the peer-nominated global Chief Executive Awards. This year we introduced the Chairman's Award for Social Responsibility, as well as another global award for innovation.

We continue to offer students the opportunity to undertake their university student research projects with us and have developed a new partnership with Career Ready in the UK. We also increased the number of countries in which we offered work experience placements to now include Australia, China, Canada, Germany, Italy, Russia, Spain, the UK and Ireland, and the US. This programme benefits both our employees and our local communities. In order to provide a globally consistent experience, we developed global work experience guidance, to be implemented in 2019.
We believe that this is an area where we can leverage our own skills and experience to make a positive difference to young people starting their careers.

Social responsibility review continued

Directors

Female 25%
Male 75%

2017: Female 33% Male 67%

Senior managers

Female 29%
Male 71%

2017: Female 24% Male 76%

Total workforce

Female 46%
Male 54%

2017: Female 45% Male 55%

Diversity and inclusion

We are driven by the belief that successful businesses are those which harness the benefits of a truly diverse and inclusive culture. Our ambition is to enable each person to fulfil their potential in an environment of openness and trust.

We believe in creating a diverse company that reflects the clients we support and the communities of which we are part. 2018 was the first year that organizations in the UK were legally obliged to publish gender pay gap reports. The median pay gap for all our UK legal entities is 15.2%, which is lower than the national median pay gap of 18.4%, as reported by the Office for National Statistics. Our ambition is to continue to encourage and promote all our colleagues equally and fairly and to introduce further transparency into our pay decisions. We are committed to work proactively to close this gap and to provide fair and competitive rewards to all our employees, irrespective of gender. Our key initiatives are in leadership development opportunities, flexible working, access to all for career opportunities, coaching and mentoring, diversity and inclusion training, diverse recruitment and talent development and fair pay.

In March 2018 we celebrated International Women's Day (IWD) globally at BSI for the first time. IWD recognizes the social, economic, cultural and political achievements of women and marks a call to action for accelerating gender parity. Colleagues around the world organized local events and joined in the campaign to share with others what IWD means to them.

Our Board of Directors is now 25% female, less than in 2017 due to the retirement of a female Non-Executive Director. However, the percentage of females in senior management showed another increase from last year, by five percentage points to 29%. In 2016 only 19% of this group were female. Over the total workforce, the percentage of female employees increased slightly again to 46%.

Our communities

We understand the value of working in partnership with our local communities. Our aim is to contribute positively to the communities within which we work.

We actively encourage our colleagues to spend a day volunteering and, following employee feedback, have updated our volunteering policy and processes to make it easier for colleagues to volunteer their time for societal and environmental causes that are important to them. We are developing relationships with local educational organizations in a number of our operating countries. We have seen an increase in the number of colleagues volunteering this year, as individuals and as teams, delivering presentations in universities or in our BSI offices, offering interview sessions, and inspiring young minds about science, technology, engineering and mathematics (STEM). We held our first STEM insight day for local students at our Milton Keynes office in 2018 and continue to do this at our Hemel Hempstead office, in partnership with STEM Learning.

We are proud to have announced our new global charity partnership with Room to Read and support for their Girls Education Programme to help girls stay in secondary education in India. We maintain an active policy of

BSI hosted its first 'BSI Inspiration Day' for local students at its UK headquarters in Milton Keynes.

Kamla, a Room to Read alumna, visited BSI. She is pictured with BSI Chief Executive Howard Kerr and Leanne McNulty from Room to Read.

Colleagues from all our offices in Australia took on walking and running challenges to improve their wellbeing and raise funds for local charities.

Colleagues in the US made 'Back to School' backpacks for disadvantaged students.

charitable giving and have supported many of our colleagues' fundraising initiatives across the Group through our match-giving scheme. Our colleagues have chosen to raise funds for various local charitable causes, including cancer, clean water, education, deaf and disabled people, heart disease, mental health, men's health, orphaned children, wildlife conservation and a chimpanzee sanctuary.

Several of our offices have also collected and donated books, IT equipment and other school equipment to support students in education and their wider communities. Additionally, our colleagues have actively supported the disaster relief efforts following flooding in Kerala, India, and the earthquake and tsunami in Sulawesi, Indonesia. We continue to support children's education in India and developed a new relationship with Rays of Hope in South Africa. Both initiatives are part of legal compliance in these countries.

Colleagues from the UK, including Craig Smith, Group Finance Director, and Amanda Kiely, Group Head of Social Responsibility, cycled to the height of Mount Everest as part of our Room to Read 'Active for Education' challenge.

Social responsibility review continued

Room to Read – global charity partnership

Did you know that 750 million people in the world are illiterate and two-thirds of those are women and girls? Our new global charity partner, Room to Read, focuses on two time periods that are most critical in a child's schooling: the early primary school age for literacy acquisition and the vital secondary school period for girls' education. It aims to reach 15 million children by 2020.

Together with Room to Read, BSI is supporting girls to stay in secondary education in India. We have delivered a number of engagement campaigns throughout the year, including getting 'Active for Education'. Colleagues from all our regions undertook challenges such as swimming, cycling, running, selling books and eating healthily in support of Room to Read. We were privileged to host an alumna of the Girls Education Programme, who spoke with our Chief Executive and other BSI colleagues about her experience. Over the course of 2018, we were delighted to have raised sufficient funds to support 125 girls to stay in secondary education in India for a whole academic year, helping to change the lives of these young girls and their local communities.

Colleagues in a number of our offices collected books to donate to local schools and charities.

'We are proud to have announced our new global charity partnership with Room to Read and support for their Girls Education Programme to help girls stay in secondary education in India.'

Our environment

We recognize the importance of good environmental stewardship and aim to minimize our negative impacts and improve our performance.

As we upgrade our offices over time, we are acutely aware of the significant environmental impact and we adopt the highest relevant standards to help minimize this. As we move offices, it is equally important to ensure that we minimize our negative impacts and we developed specific environmental, health and safety guidance on vacating and occupying premises.

In our day-to-day operations, we have a number of initiatives to manage our resource use, such as reuse and recycling systems. We have also expanded the use of our virtual training delivery platform from the US into Europe and APAC, which will reduce travel for our tutors and for delegates alike. We will also be delivering a proportion of our internal employee learning courses virtually in 2019 and will achieve carbon savings here too. The main infrastructure improvements we have made this year include the installation of solar panels at our office in Delhi, India, and electric car charging points at our Milton Keynes, UK, office.

Colleagues from our office in Thailand picked up litter on local beaches.

Solar panels were installed at our Delhi office in India.

Greenhouse gases

We continue to take steps to manage more actively our energy use and greenhouse gas (GHG) emissions. We account for our GHG emissions in line with ISO 14064 (Greenhouse Gas Quantification and Reporting), the protocol corporate standard and UK Government guidance, to ensure that we account for significant GHG emissions within our operational control. We measure our emissions every six months and include our significant scope 3 emissions from our six largest operating countries. We have set 2017 as our baseline year using an economic intensity ratio, based on Group revenue, to enable comparison of performance over time.

Overall, our scope 1 emissions are broadly comparable with 2017 despite the increase in our revenue which has meant a reduction in our intensity ratio. Our scope 2 emissions and intensity ratio have decreased, mainly due to a decrease in GHG conversion factors following a conversion from coal generation to natural gas and renewable energy generation by UK energy companies. Scope 3 emissions from air travel have increased by 25% compared to 2017 due to increased business travel and client activity. In 2019 we will continue to look at ways to reduce our GHG emissions.

Our global carbon footprint is measured in tonnes of carbon dioxide equivalent (tCO_2e). Emissions are shown in compliance with the Department for Environment, Food and Rural Affairs (Defra) GHG Reporting Guidance and have been calculated using the latest conversion factors published by Defra and the International Energy Agency for overseas electricity data.

Greenhouse gas emissions (tCO_2e)	2018	2017
Scope 1 emissions	**4,200**	4,000
Scope 2 emissions	**2,200**	2,500
Scope 3 emissions	**12,800**	10,200
Total	**19,200**	16,700
Intensity ratio (tCO_2e/£m revenue)		
Scope 1	**8.20**	8.46
Scope 2	**4.30**	5.29
Scope 3	**25.00**	21.56
Total	**37.50**	35.31

Definitions

Scope 1 emissions arise directly from sources that are owned or controlled by BSI, including fossil fuels burned on site and vehicles.

Scope 2 emissions arise indirectly and result from the off-site generation of electricity, heating and cooling purchased by BSI.

Scope 3 emissions include air travel for our six largest operating countries, Australia, China, India, Japan, the UK and the US.

Colleagues from our Regulatory Services business stream, led by Manuela Gazzard, Director, Regulatory Services, planted trees to improve the habitat in a chimpanzee sanctuary in Florida.

‘I am really pleased with the progress we are making to enable a more resilient world for present and future generations.’

For the first time, we celebrated World Environment Day and have taken action to replace single-use items with reusable items in a number of our offices, including the UK, Brazil, India, Poland, Taiwan, Thailand and Vietnam. At our headquarters in Chiswick, we have saved 65,000 single-use plastic cups a year, by introducing glasses in our cafeteria. Colleagues also volunteered to take part in team-building activities throughout the year to protect our local environment, for example tree planting and beach clean-ups.

Social responsibility is a business imperative. I am really pleased with the progress we are making to enable a more resilient world for present and future generations.

Stephen Page
Chair of the Social Responsibility Committee
20 March 2019

Information resilience for your business

Protecting your information, people and reputation.

10,302

clients built Information Resilience with BSI in 2018

4,396

organizations upskilling their cybersecurity expertise with BSI training during 2018

Cyber-attacks

With high profile coverage of data breaches and malicious cyber-attacks continuing to hit the headlines, organizations are increasingly asking how best to reach a robust state of Information Resilience, where they feel confident that they can protect their people and secure their systems and information in a growing digital environment. We can help our clients through their journey.

Strategy

An Information Resilience strategy – one that considers people, information and essential networks, applications and cloud platforms – is critical to every business. In 2018 we worked with over 10,000 clients to upskill their people, embed security awareness, test their systems and provide tools to help them implement the most relevant security controls and processes to achieve a state of Information Resilience – not just for today, but for the future.

Resilience

Organizations which focus on addressing the challenges of cyber security, information management and privacy, security awareness and training and compliance become more secure and resilient. A growing number of companies work closely with us to assure this, as we bring a unique combination of products and services that they can leverage to help them deal with an ever-changing threat.

Corporate governance

Introduction by the Chairman

John Hirst

The British Standards Institution was founded in 1901 and, reflecting its public interest aims, was incorporated by Royal Charter in 1929.

BSI's purpose of business improvement is defined in our Royal Charter. As a non-profit distributing company, growth and profitability increase our capacity to provide the activities that enable us to deliver the beneficial impact of BSI's purpose.

BSI has no shareholders, but we are always mindful of our other stakeholders, the Company's impact on them and their influence on the Company.

Consistent with BSI's purpose, our commitment to our members, and BSI's unique status as the UK National Standards Body, the Board of BSI is committed to the highest standards of corporate governance. This is of profound importance in building trust with all our stakeholders.

With no stock exchange listing, BSI is not required to apply the Financial Reporting Council's UK Corporate Governance Code (the 'Code'). We have, however, for many years, voluntarily complied with the Code, where possible, as though we were a listed company. In doing so, we have established internal governance processes which reflect best practice in business today. New corporate governance regulations require BSI to specify a code of governance to apply from 2019 and in 2018 the Board agreed to continue to apply the Code wherever relevant to BSI as a Royal Charter Company without shareholders.

The ultimate accountability for the governance of BSI lies with our Board of Directors, which has a majority of Non-Executive Directors and so is able to draw upon the experience of individuals of recognized stature from many areas of business. 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 is informed by the views of those interested in standards and does valuable work in gathering and distilling information on standardization matters to advise the Board.

Underpinning this governance framework, and our internal controls and financial management, is the BSI Code of Business Ethics. It sets the ethical values and high standards of integrity that we embed in the culture of our organization and apply to every aspect of the way that we do business. The BSI Code of Business Ethics may be found on our website, www.bsigroup.com/codeofethics.

John Hirst
Chairman
20 March 2019

Board of Directors

John Hirst CBE
A N SR

Chairman

Skills and experience John Hirst was appointed to the Board in October 2018 as Non-Executive Director and became Chairman in January 2019. John has a wealth of experience leading and transforming complex organizations. His early career was with ICI, beginning in finance before progressing into various leadership roles and serving on the group executive team as Chief Executive of the speciality chemicals division. Then he became Group Chief Executive of Premier Farnell, a FTSE 250 electronics distribution company, and in 2007 he joined the UK's Met Office as Chief Executive until 2014.

Other appointments John is Senior Independent Director of Anglian Water Services and a Non-Executive Director of Ultra Electronics Holdings PLC and Marsh Limited.

Howard Kerr
N SR

Chief Executive

Skills and experience 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.

Other appointments None.

Craig Smith FCCA

Group Finance Director

Skills and experience 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. Following his return to the UK in 1997 he worked as European Finance Director for two large American corporations and, 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.

Other appointments None.

Alison Wood
N R

Non-Executive Director

Skills and experience Alison Wood joined the Board in September 2014 as Non-Executive Director. She spent nearly 20 years at BAE Systems PLC in a number of strategy and leadership roles, including that of Group Strategic Director, and was the Global Director of Strategy and Corporate Development at National Grid PLC from 2008 to 2013. She has held Non-Executive Director positions with BTG PLC, Thus Group PLC and e2v PLC.

Other appointments Alison is Non-Executive Director and Chair of the Remuneration Committee at Cobham PLC, Costain PLC and TT Electronics PLC.

Dr Stephen Page
N R SP SR

Non-Executive Director

Skills and experience Stephen Page joined the Board in September 2015 as Non-Executive Director. Stephen has a wealth of boardroom experience in the opportunities and risks of the digital age, as well as corporate risks such as cyber security and counter-terrorism. At Accenture he held European and global leadership roles including worldwide Managing Director, Strategic IT Effectiveness. For the past thirteen years he has held a portfolio of board and senior advisory positions.

Other appointments Stephen is Non-Executive Director of TSB Banking Group PLC and Nominet UK.

Douglas Hurt FCA
A N R

Non-Executive Director

Skills and experience Douglas Hurt joined the Board in November 2015 as Non-Executive Director. Douglas started his career at PricewaterhouseCoopers, where he qualified as a Chartered Accountant. From there he joined the GlaxoSmithKline Group, where he held many senior roles including Managing Director, Glaxo Wellcome UK. In 2006 he joined IMI PLC and was Group Finance Director until February 2015.

Other appointments Douglas is Senior Independent Director and Chair of the Audit Committee of Tate & Lyle PLC, Vesuvius PLC and Countryside Properties PLC.

Dr Scott Steedman CBE

SP

Director of Standards

Skills and experience Scott Steedman joined the Group in January 2012 and was appointed to the Board in October 2012. An engineer by background, he started his career at the University of Cambridge before moving to industry where he spent over 20 years as a consultant working in the Built Environment sector. He was a Non-Executive Board Member of the Port of London Authority from 2009 to 2015 and served as Vice-President (Policy) for the European Committee for Standardization (CEN) from 2013 to 2017.

Other appointments Scott is Vice-President (Policy) of the International Organization for Standardization (ISO).

Lucinda Riches CBE

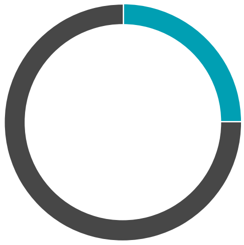
A N R

Senior Independent Director

Skills and experience Lucinda Riches was appointed advisor to the Board in May 2011, Non-Executive Director in May 2012 and Senior Independent Director in October 2015. 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.

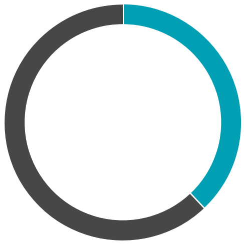
Other appointments Lucinda is Non-Executive Director of Ashtead Group PLC, CRH PLC and ICG Enterprise Trust PLC.

Board gender diversity



Female	25%
Male	75%

Board composition



Executive	38%
Non-Executive	62%

Grainne Brankin

Company Secretary

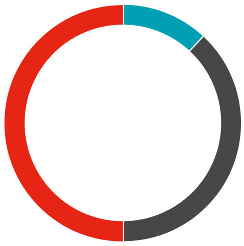
Skills and experience Grainne Brankin joined the Group in June 2017 as General Counsel and Company Secretary. Grainne qualified at Clifford Chance and has wide experience of international governance, risk and transactions, in particular in technology and media. She has held General Counsel and executive committee positions at Yahoo!, CBS Outdoor, Exterion Media and Centaur Media PLC.

Other appointments None.

Committee membership

- A Audit Committee
- N Nominations Committee
- R Remuneration Committee
- SP Standards Policy and Strategy Committee
- SR Social Responsibility Committee
- Committee Chair

Board tenure



< 1 year	12%
1–5 years	38%
5+ years	50%

Our Group Executive

Our Group Executive team has many years of experience successfully managing all aspects of complex global businesses.

Howard Kerr
Chief Executive

Craig Smith
Group Finance Director

Dr Scott Steedman CBE
Director of Standards

Grainne Brankin
General Counsel

Harold Pradal
Group Commercial Director

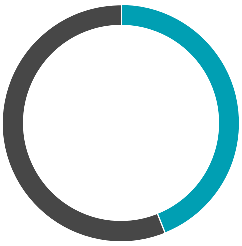
Shirley Bailey-Wood MBE
Director, Information Solutions

Pietro Foschi
Director, Assurance Services

Dr Manuela Gazzard
Director, Regulatory Services

Angela Paradise
Group Human Resources Director

Executive gender diversity



Female	44%
Male	56%

Executive tenure

< 1 year	22%
1–5 years	44%
5+ years	34%

Corporate governance report

Excellence in governance

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 oversight by investors but, nevertheless, has complied throughout the accounting period with the FRC UK Corporate Governance Code 2016 (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). Sir David Brown, Chairman, was a member of the Audit Committee (not in compliance with C.3.1 of the Code) where his knowledge and experience were considered to be beneficial. Directors are not subject to re-election at the AGM each year (B.7.1 of the Code) but at the AGM following their appointment and one-third, rounded down, of other Directors stand for re-election at each AGM as required by in the Bye-laws of the Company.

The Board

The Board is the governing body of the Company and is collectively responsible for the success of the business. It provides leadership to 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, and for the Company's strategy, management, organization structure, financial reporting, internal controls, risk management, approval of significant contracts, acquisitions and disposals, determination of corporate policies, raising of finance, remuneration of senior management, appointments to the Board and Board Committees and corporate governance.

In 2018 the Board comprised the Chairman, Sir David Brown, who retired on 31 December 2018; the Chief Executive, Howard Kerr; and two further Executive Directors, Craig Smith and Scott Steedman, responsible for finance and standards, respectively. Douglas Hurt, Stephen Page, Lucinda Riches and Alison Wood were Non-Executive Directors throughout the year. On 31 March 2018 Alicja Lesniak retired as a Non-Executive Director. John Hirst was appointed as Non-Executive Director and Chairman Designate on 15 October 2018 and, with the retirement of Sir David Brown, became Chairman on 1 January 2019. The Directors of the Company and their roles are given in their biographical details on pages 52 and 53.

There is a clear division of responsibilities at the head of the organization which has 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 management of any actual or potential conflicts of interest are carried out correctly.

The Board

The Board is the governing body of BSI and leads the organization through a framework of prudent and effective controls. It sets the commercial strategy of BSI in accordance with Royal Charter and is collectively responsible for the long-term success of the Company in line with its purpose.

Chairman

Role and responsibilities

- Leads and manages the Board. Sets the agenda, style and tone of discussions and promotes open debate, effective decision making and a unitary culture
- Ensures that the Group does business in a highly ethical way worldwide and that its Code of Business Ethics is maintained and observed

Board Committees

The Board has established Committees to help ensure BSI meets best practice in corporate governance. The Board delegates certain of its responsibilities to these Committees. Formal Audit, Nominations and Remuneration Committees have been put in place in line with the Code.

Standards Policy and Strategy Committee

Role and responsibilities

- Provides an independent focal point for the views of all current and potential future stakeholders in the work of BSI Standards to assist in developing and establishing the strategic direction and policy in national, European and international standards forums
- Provides advice on current strategy, objectives and priorities for the development of standards
- Acts as an advocate for the use of voluntary standards and for BSI's role as the UK's National Standards Body
- Monitors and makes recommendations on the suitability and effectiveness of BSI's technical committee structure and membership

Standards review on **pages 32 to 35**

Executive Committees

These Committees are responsible for the implementation of agreed strategy and the day-to-day operation of BSI. The Committees are chaired by the Chief Executive and report to him.

Senior Independent Director

Role and responsibilities

- Provides a sounding board for the Chairman and appraises the performance of the Chairman in the evaluation process
- Acts as intermediary for other Directors if needed
- Deputizes for the Chairman if necessary

Non-Executive Directors

Role and responsibilities

- Contribute to the development of the organization's strategy
- Scrutinize and constructively challenge the performance of management in the execution of strategy
- Advise and contribute to Board debate based on their broad business experience and professional skills

Executive Directors

Role and responsibilities

- Responsible for the key areas of finance and standards
- Responsible with the Chief Executive for the operational implementation of the Group's strategy
- Bring their knowledge of the operations of the organization and its business environment to the deliberations of the Board
- Help to set the longer-term strategy and shorter-term goals of the organization as part of the unitary Board

Group Chief Executive

Role and responsibilities

- Leads the executive team and is accountable for the Group's performance consistent with the strategy, controls, culture and risk appetite agreed by the Board
- Ensures that the flow of information to the Board is accurate, timely and clear
- Develops and maintains effective management systems and internal controls

Company Secretary

Role and responsibilities

- Acts as chief governance officer
- Supports the Chairman and Group Chief Executive in fulfilling their duties
- Available to all Directors for advice and support

Social Responsibility Committee

Role and responsibilities

- Reviews the Group's policies and practices in the areas of social responsibility against agreed targets
- Helps determine the focus of the Group's commitment to social responsibility
- Makes recommendations to the Board regarding social responsibility policies
- Maintains the Group's charitable donations policy and oversees charitable donations made by the Group

Social responsibility review on **pages 41 to 47**

Audit Committee

Role and responsibilities

- Monitors the integrity of the Group's financial statements and reviews significant accounting and reporting judgements
- Monitors the effectiveness of the organization's internal control framework and internal Audit department
- Oversees the relationship with, and work of, the external auditors, ensuring no conflict of interest
- Reviews the Group's whistle-blowing process and procedures for detecting and preventing fraud and bribery
- Monitors and reports to the Board on the performance of the Company's responsibilities and obligations to HM Government in respect of its activities as the UK's National Standards Body

Committee report on **pages 62 to 65**

Nominations Committee

Role and responsibilities

- Determines the structure, size and composition of the Board
- Considers succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company, and the skills, knowledge, experience and diversity needed on the Board in the future
- Makes recommendations in relation to the re-election of Directors retiring by rotation

Committee report on **pages 66 and 67**

Remuneration Committee

Role and responsibilities

- Determines the policy for the remuneration of the Chairman, the Chief Executive, the Executive Directors, the Company Secretary and the executive management
- Determines the total individual remuneration package of the Chairman, each Executive Director, Company Secretary and other designated senior executives including bonuses and long-term incentive payments
- Approves the design of, and determines targets for, any performance related pay schemes operated by the Company and approves the total annual payments made under such schemes

Committee report on **pages 68 to 77**

Group Executive

Role and responsibilities

- Implements agreed Board strategy through the operational management of BSI
- Operates in line with established risk management frameworks, compliance policies, internal control systems and reporting requirements
- Embeds BSI's values and culture throughout the Group

Banking and General Purpose Committee

Role and responsibilities

- Oversees the Group's banking relationships and general treasury management
- Comprises the Chief Executive and the Finance Director and its meetings are attended by key members of the Group's treasury and finance functions

Code of Conduct Oversight Committee

Role and responsibilities

- Acts as a high-level governance body to determine issues arising from the Impartiality Code of Conduct
- Manages the separation or co-operation of activities between the different parts of BSI, in accordance with the Impartiality Code of Conduct, to prevent potential conflicts of interest

Information Security Steering Committee

Role and responsibilities

- Monitors the risks to the Group of malicious or inadvertent access or misuse of corporate data
- Reviews the measures in place to prevent such activities and monitors plans to strengthen defences further
- Oversees projects to obtain external information security certification where appropriate

Corporate governance report continued

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

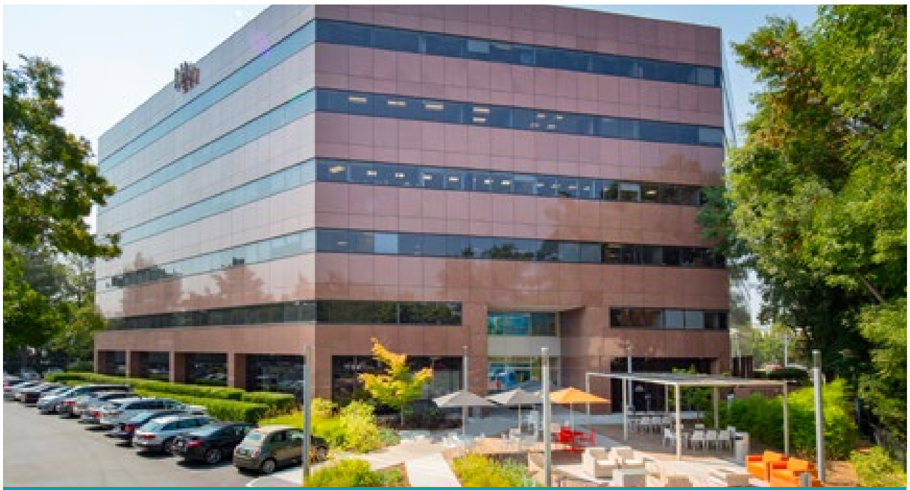
The Board has determined that the Chairman was independent on his appointment and that all of the Non-Executive Directors are considered independent for the purposes of the Code. The British Standards Institution's Bye-laws require that the total number of Executive Directors may not exceed the total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

Lucinda Riches is the Senior Independent Director and meets regularly with the Non-Executive Directors without the Chairman being present.

Rotation of Directors
In accordance with the Company's Bye-laws, Directors are required to submit themselves for re-election at the next Annual General Meeting following their first 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 Annual General Meeting. 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 2018. The Board is regularly briefed on financial performance as well as risks, uncertainties and future prospects. In addition to regular updates and formal items, matters considered and agreed upon during 2018 are shown in the table opposite.

Evaluation, training and support
An evaluation process is carried out annually to support continuing improvement in Board, Board Committee and individual Director effectiveness. The intention is to have this process led by an external facilitator at three-year intervals. Independent Board Review, a division of Independent Audit Limited, facilitated the evaluation in 2017, and the Board agreed that BSI should facilitate the review itself in 2018. In order to provide consistency, assess change and build upon the benefits of the previous years' processes the question set was based on those from earlier years with the responses reviewed and analysed internally. The conclusion from the process was that, while the Board was effective and working



Board and Executive meeting in San Jose, USA
In October 2018 the Chairman, Sir David Brown; Executive Directors Howard Kerr, Craig Smith and Scott Steedman; Non-Executive Directors Douglas Hurt and Alison Wood; and members of the Group executive travelled to San Jose, California, USA where BSI Services and Solutions (West) Inc is based. As well as being a chance for members of the Board and senior executives to visit the site and meet the management of that business, the opportunity was also taken to gather together and meet senior management from around the Americas.

A number of supplementary activities were arranged with external speakers providing insight into opportunities and challenges for BSI in its chosen streams and sectors in the region. The event proved valuable with a number of important new initiatives generated.

Board meeting attendance
The attendance of Directors at Board meetings is indicated in the table below.

Attendance	Jan	Mar	May	Jun	Jun	Sep	Dec
Chairman							
Sir David Brown (retired 31 December 2018)	●	●	●	●	●	●	●
Executive Directors							
Howard Kerr	●	●	●	●	●	●	●
Craig Smith	●	●	●	●	●	●	●
Scott Steedman[1]	●	○	●	○	●	●	●
Non-Executive Directors							
John Hirst (appointed 15 October 2018)							●
Douglas Hurt	●	●	●	●	●	●	●
Alicja Lesniak (retired 31 March 2018)	●	●					
Stephen Page	●	●	●	●	●	●	●
Lucinda Riches	●	●	●	●	●	●	●
Alison Wood	●	●	●	●	●	●	●

● Attended ○ Did not attend

1 Scott Steedman was unable to attend the March and one of the June meetings due to meetings of the CEN and CENELEC Boards to discuss BREXIT.

well, there was always potential to improve. It was agreed to implement the changes suggested from the evaluation, which included a greater strategic view of the organization's longer-term business horizon, more focus on talent development and succession planning and development of internal and external stakeholder communication. The process also confirmed that the Board Committees were effective and working well but suggestions for their continuing improvement would be actioned.

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 Group. A programme of introductory training and site visits was provided to John Hirst when he joined the Board. 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 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, at the expense of the Company.

Board Committees

The Board delegates certain of its responsibilities to standing Committees. These Committees have written terms of reference that set out their authorities and duties and are reviewed annually. 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.

Board focus during 2018

January
- Review of the Group's competitor landscape
- Business update on Built Environment
- Review of the Group's risk registers and the related drafting for the Annual Report
- Consideration of the Company's 2017 preliminary results

March
- Evaluation of the Chairman and the Chief Executive's performance
- Review and agreement to recommend an uplift to the Chairman's and Non-Executive Directors' fees at the AGM
- Consideration of the 2017 results and approval of the Annual Report and Accounts
- Review of the Group's talent management strategy
- Update on the progress of the organizational development plan
- Consideration of the visit to the Hemel Hempstead facility

May
- Business update on Medical Devices
- Review of NSB Code of Conduct compliance
- Consideration of the preparations for the Annual General Meeting
- Review of the Group's insurance programme at renewal
- Determination of membership fees

June (two meetings)
- Review of Group strategy with the Group's Executive management
- Consideration of the Group 2019–2021 strategic plan
- Review of the BSI Code of Business Ethics
- Update on internal promotions in light of the organizational development plan
- Business update on ISO transitions
- Review and approval of the proposed acquisition of AirCert GmbH
- Consideration of employee engagement in the Group

September
- Consideration of the governance of Group subsidiary companies
- Approval of the consolidated Code of Conduct
- Consideration of the effect of the revisions to the reporting regulations and UK Corporate Governance Code
- Consideration of the Group's talent management strategy and succession planning process
- Approval of the Group's 2019–2021 strategic plan
- Business update on Product Certification
- Review of the visit to the Milton Keynes site
- Appointment of Non-Executive Director and Chairman Designate

December
- Annual evaluation of the Board and its Committees
- Review of Non-Executive Director mentoring, site visits and public initiatives
- Update on South African subsidiary
- Corporate governance revisions update including workforce and stakeholder engagement initiatives
- Adoption of updated terms of reference for the Board and its Committees in light of the corporate governance revisions
- Consideration of BSI's cyber security and information resilience
- Approval of the Group's 2019 budget

Corporate governance report continued

Board Committees continued

During the year all of the Committees considered the findings of the evaluation process and, apart from the Standards Policy and Strategy Committee, reviewed the effect of the revised corporate governance requirements on its responsibilities. 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 Group.

- A report by the Audit Committee, including details of its membership, is set out on pages 62 to 65.

Nominations Committee
The Nominations Committee is responsible for 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 pages 66 and 67.

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

- The Directors' remuneration report, which includes details of the Remuneration Committee's membership, is set out on pages 68 to 77.

Social Responsibility Committee
The Social Responsibility Committee is responsible for enhancing the commitment of the Group to social responsibility based upon the guidelines set out in ISO 26000. The Committee is chaired by Stephen Page, Non-Executive Director, who took on the role on 1 April 2018 from Alicja Lesniak following her retirement on 31 March 2018. The Committee's members are Howard Kerr, Chief Executive, and John Hirst, Non-Executive Director and Chairman Designate, who joined on 15 October 2018, with the Group Head of Social Responsibility in attendance. Sir David Brown, Group Chairman, was a member until his retirement on 31 December 2018.

- The Social responsibility review is set out on pages 41 to 47.

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 standards and standardization activities in order to advise the Board on the strategic policy of the organization in the national, European and international standards arenas. The Committee is chaired by Carol Sergeant CBE. The Committee's members include Scott Steedman, Director of Standards, and Stephen Page, Non-Executive Director, with the Group Chairman and Group Chief Executive in attendance.

- Details of standards activities are given by Scott Steedman, Director of Standards, on pages 32 to 35.

Internal control

The 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 control in the 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 discussions. 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 considered by the Board and updated when appropriate.

The Group has 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 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 principal risks and uncertainties facing the business are detailed on pages 27 to 29.

The process of requiring senior levels of management to provide an annual Letter of Assurance provides formal confirmation 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 Group by the Chief Executive and the Group Finance Director and the Board reviews a full financial report and commentary every month. The Group's Internal Audit function is responsible for auditing and monitoring the application of financial procedures and practices throughout the Group. The Head of Internal Audit and Risk reports functionally to the Group Finance Director but has full and open access to the Audit Committee.

The 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 FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014, 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 the Group aims to put at the forefront of all its activities.

By Order of the Board

John Hirst
Chairman
20 March 2019

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 Group and of the profit of the Group and parent company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors of the ultimate parent company are responsible for the maintenance and integrity of the of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent company's position and performance, business model and strategy.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and parent company's auditors are aware of that information.

By Order of the Board

Grainne Brankin
Company Secretary
20 March 2019

Introduction by Douglas Hurt

Chair of the Audit Committee

During the year ended 31 December 2018 the Committee comprised:

Douglas Hurt
(Chair from 1 June 2018)

Sir David Brown
(to 31 December 2018)

John Hirst
(from 15 October 2018)

Alicja Lesniak
(to 31 March 2018)

Lucinda Riches
(Chair to 31 May 2018)

"The Committee focuses its agenda on financial reporting risk and reviewing the continuing validity of critical accounting judgements and estimates. It considers risk in its broader sense to ensure that appropriate financial controls are in place."

I was appointed Chair of the Audit Committee (the 'Committee') on 1 June 2018 when Lucinda Riches retired as Committee Chair after three years in the role. Her work as Chair of the Committee has been invaluable and she continues to contribute to the Committee as a member.

On behalf of the Board, the Audit Committee has primary responsibility for addressing financial risk in the Group and works with the Group Finance Director and the finance team, and is aided in its work by BSI's Internal Audit department and the external auditors, to ensure areas of financial risk are being identified and mitigated. In the context of a developing environment of governance and regulation the Committee helps BSI make sure that financial reporting is compliant as well as fair, balanced and understandable.

During the year, the Committee maintained its focus on ensuring the integrity of the Group's financial reporting by maintaining strong oversight over the adequacy and effectiveness of the Group's internal financial controls and the internal control and risk management system.

The Committee monitors the effectiveness of internal audit in the Group's overall risk management system. BSI's internal audit department does essential work in enhancing and protecting organizational value by providing risk-based and objective assurance, advice and insight. The Committee reviews the work of the department with its head to ensure non-conformities and other issues are detected by applying appropriate investigatory rigour and properly addressed with lessons learnt for the future. The Committee monitors the Internal Audit work plan in accordance with the risk-based approach developed the previous year which is intended to focus the resources of the department on where they can be used most effectively. The Committee helps to maintain the department's proficiency and in 2015 an External Quality Assessment (EQA) was carried out, with recommended areas of improvement against the Institute of Internal Auditors' professional standards elements carried out. An internal audit self-assessment process was undertaken in 2016, 2017 and 2018. An EQA was carried out at the beginning of 2019 by the Institute of Internal Auditors. While identifying some areas where the contribution of the function may be enhanced, its report noted the strong performance of BSI's Internal Audit function and its general improvement from 2015, as measured against the Institute of Internal Auditors' professional standards elements.

The Committee is responsible for overseeing the work of the external auditors, PricewaterhouseCoopers LLP, and, prior to their audit, discussed and agreed with them the nature and scope of the audit. The 2018 audit continues to apply the risk-based approach to the audit plan designed to address the developing profile of the Group. The Committee is also responsible for the relationship with the external auditors and their quality, expertise and judgement as well as for assessing the effectiveness of the audit process. The Committee is responsible for ensuring that possible conflicts of interest with the external auditors are identified and avoided, including by monitoring the operation of the Group's policy on the engagement of the external auditors to supply non-audit services. The Committee approved the fees of the external auditors and recommended their re-appointment at the Annual General Meeting.

While the Committee operates to a pattern of work around the Group's annual reporting cycle, it also regularly considers matters in areas that could create risk, such as reviewing the 'whistle-blowing' process, anti-bribery measures and fraud protection activity as well as other financial compliance matters. The Committee also takes the opportunity to 'deep-dive' on areas of interest and, during 2018, its activities included a consideration of the application of revenue recognition standard IFRS 15, a review of the implications of the new corporate governance requirements and monitoring of the finance transformation project.

During the year the Committee considered whether the level of materiality applied by the external auditors was appropriate given the growth of the Group. After consideration, the Committee agreed, following discussions with the external auditors, that, while there were no concerns, the level of Group external audit materiality should be moved to 5% of profit before tax as the benchmark, the same level as a Public Interest Enterprise, from its previous level of 10%. This would be applied commencing with the 2018 audit.

Over the forthcoming year, the Committee will maintain its rigorous oversight over the Group's financial matters and in particular the internal control framework and the assurance provided by the external auditors that go to ensure the accuracy and reliability of BSI's financial information. It will also continue its work in ensuring that reporting on the Group's performance, business model and strategy is provided in a clear and informative way.

Douglas Hurt
Chair of the Audit Committee
20 March 2019

The Audit Committee

The Committee is established by the Board under terms of reference that are reviewed annually and were most recently updated in December 2018. A copy of the Committee's terms of reference is available on the BSI Group website.

Membership

In determining the composition of the Committee, the Nominations Committee and the Board have selected Non-Executive Directors who can bring an independent mindset to their role and who can help ensure that the required range of skills, experience, knowledge, professional qualifications and competence relevant to the sector in which BSI operates is available to the Committee.

The appointment of a company chairman to an audit committee is not in compliance with the recommendations of the FRC UK Corporate Governance Code. However, Sir David Brown, Chairman of BSI, was a member of the Committee during 2018 as his knowledge and experience are considered beneficial. Sir David Brown has had a distinguished career in telecommunications and electronics which included chairmanship of Motorola Ltd. His many professional affiliations include Fellowship of the Royal Academy of Engineering and he is a former President both of the Institution of Electrical Engineering and the Chartered Quality Institute. John Hirst joined the Committee upon his appointment to the Board on 15 October 2018. He is a member of the Association of Corporate Treasurers and a fellow of the Institute of Chartered Accountants and has a wealth of experience leading and transforming complex organizations. He currently holds a number of Non-Executive Director roles including in Marsh Limited and as Senior Independent Director and Chair of the Audit Committee of Anglian Water Services. He continues as a member of the Committee following his appointment as Company Chairman on 1 January 2019, although not in compliance with the recommendations of the FRC UK Corporate Governance Code, so that the Committee can continue to benefit from his financial and business expertise.

Douglas Hurt is a Chartered Accountant and has held many senior financial roles including Group Finance Director at IMI PLC. He is Non-Executive Director and Chairman of the Audit Committee at Tate & Lyle PLC, Vesuvius PLC and Countryside Properties PLC. Lucinda Riches was an investment banker for over 20 years at SG Warburg and successor firms and is a Non-Executive Director of CRH PLC, ICG Enterprise Trust PLC and Ashtead Group PLC. Alicja Lesniak, who was a member of the Committee until 31 March 2018, is a Chartered Accountant and during her career has held many senior financial roles including Chief Financial Officer of Ogilvy and Mather Worldwide and Aegis PLC.

All members of the Committee are considered to have had recent and relevant financial experience.

The Committee as a whole has competence relevant to the sector in which BSI operates.

When appropriate, the Chief Executive, the Group Finance Director, the Group Financial Controller, the Head of Tax and Treasury and the Head of Internal Audit and Risk, 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.

Audit Committee attendance

Attendance	Mar	Jun	Nov
Douglas Hurt	●	●	○
Sir David Brown	●	●	●
John Hirst			●
Alicja Lesniak	●		
Lucinda Riches	●	●	●

● Attended ○ Did not attend

Due to the unavoidable absence of Douglas Hurt, Lucinda Riches took the Chair for the November meeting. Douglas Hurt reviewed the papers in advance and passed his comments to the meeting Chair and these were raised during the meeting. After the meeting he was debriefed by its Chair on the matters considered at the meeting.

The Audit Committee continued

Key responsibilities of the Committee

These include:

- monitoring the integrity of the financial statements of the Company and the Group including consideration of the appropriateness of accounting policies and material assumptions and estimates adopted by management;
- reviewing the content of the Annual Report to advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary to assess the Company's and the Group's performance, business model and strategy;
- meeting with the auditors, in advance of the annual audit, to consider and discuss the nature and scope of the audit;
- considering and approving the role of the Internal Audit function and monitoring its effectiveness;
- reviewing the 'whistle-blowing' procedure;
- overseeing the relationship with the external auditors as well as assessing the effectiveness of the audit process and the quality, expertise and judgement of the external auditors;
- approving the fees of the external auditors and making recommendations for their appointment, re-appointment and removal;
- developing and implementing policy on the engagement of the external auditors to supply non-audit services; and
- meeting with the auditors without the Executive Directors being present.

The Committee focuses its agenda on financial reporting risk and reviewing the continuing validity of critical accounting judgements and estimates. It 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 challenge and support to the Group Finance Director and Group finance team.

Internal audit

The Committee is responsible for the remit of the internal audit function and for monitoring the effectiveness of its work. In 2015 an EQA was carried out by the Chartered Institute of Internal Auditors during which BSI's Internal Audit function was independently assessed against the CIIA International Professional Practice Framework (IIPPF). The EQA found that the Internal Audit function provides a professional and collaborative audit service. The EQA recommended some areas of further development and these were carried out. It is intended that an EQA will be carried out regularly, with a self-assessment process against the IIPPF elements undertaken in the years between, and this was carried out in 2016, 2017 and 2018. A further EQA was carried out at the beginning of 2019. During the year the Committee reviewed the internal audit charter to ensure the activity of the Internal Audit function is appropriate to the current needs of the organization.

Activities of the Committee

During the year the Committee, among other things:

- received and considered, as part of the 2017 year-end process, an audit report from PricewaterhouseCoopers LLP on matters including audit progress and findings, quality of earnings, reporting matters, judgement areas, taxation, systems and controls, risk management, corporate governance and auditor independence;
- reviewed the draft financial statements and the 2017 Annual Report and, after due consideration, recommended them to the Board;
- agreed the scope and content of the annual Letter of Assurance by senior managers of the Group and reviewed a report on the returns received;
- agreed the 2018 audit plan with the auditors based on the risk-based approach adopted to address the developing profile of the Group;
- agreed areas of audit focus with the external auditors which, for 2018, were primarily the detection of fraud in revenue recognition and management override of controls, as well as the UK defined benefit pension scheme's valuation, impairment of goodwill and intangible assets and other matters of potential risk;
- received reports on issues raised through the Company's 'whistle-blowing' hotline and similar channels and ensured that proper processes were in place to investigate and address the matters reported;
- considered the Internal Audit department's reports, looked at its findings from each location/business area and reviewed and discussed with the Head of Internal Audit and Risk how and when issues were addressed and closed;
- approved an Internal Audit plan for 2018, based on a risk-based approach of principal risks overlaid with country risk with regard to the assurance map;
- reviewed the results of the Internal Audit self-assessment process against the IIPPF elements and monitored the actions taken by it in response to the findings of the 2015 EQA;
- met the Head of Internal Audit without the presence of management;
- approved the fee payable to the external auditors and agreed that an effective, high quality audit can be conducted for the fee;
- considered occurrences of fraud and attempted fraud against the Group and reviewed the measures taken to help prevent further instances;
- considered whether the level of materiality to be applied in the audit should be changed and subsequently agreed to moving that to 5% of profit before tax;
- considered and approved the external auditors' letters of engagement and letters of representation;
- received a comprehensive treasury and tax update and monitored the Group's response to legislative and regulatory changes in these areas;

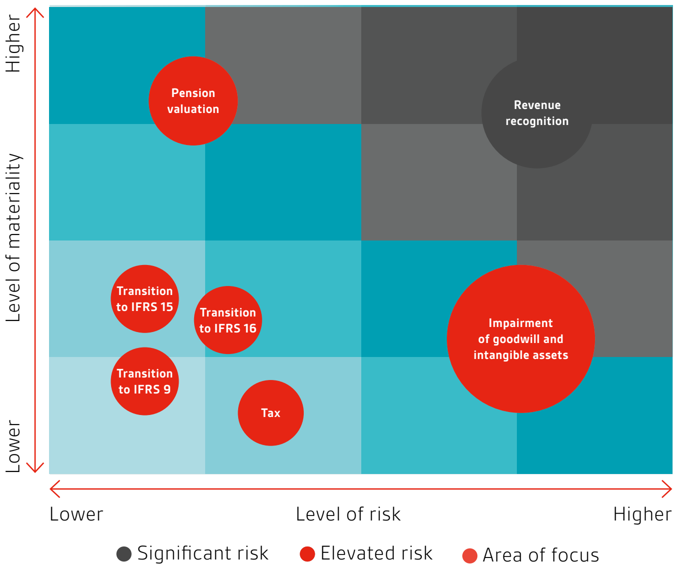
- considered and confirmed the procedures of the Company, as the National Standards Body, for compliance with its financial obligations under the Memorandum of Understanding with the UK Government;
- monitored the progress of the finance transformation programme;
- reviewed the minutes of the Banking and General Purpose Committee and discussed matters of interest with the treasury and finance teams; and
- received a regular update regarding key finance function staffing around the Group.

There is an annual work plan in place that specifies the key agenda items for each scheduled meeting of the Committee. Those items typically follow the annual reporting cycle with other regular items included as appropriate. In addition, items are added to the agenda to follow up on matters arising from previous meetings or on an ad hoc basis where matters require the consideration of the Committee.

During the year, the annual Committee evaluation process took place as set out in the 'Evaluation, training and support' section of the Corporate governance report on pages 58 and 59. The process confirmed that the Committee was working well and was effective and led to some valuable discussion.

Significant areas of risk

Areas of risk considered by the Committee in relation to the financial statements for the year ended 31 December 2018 were:



The Committee addressed these areas by applying, with the external auditors, a rigorous review of each. The Committee confirmed that appropriate accounting treatment had been applied in each case.

The Committee has power delegated by the Board, under its terms of reference, to maintain oversight over critical accounting judgements and estimates and discusses with the external auditors, where appropriate, the proper application of accounting rules and compliance with disclosure requirements.

External audit

The Committee addresses the effectiveness of the external audit process by measures including:

- assessing the culture; skills, character and knowledge; quality control; and judgement, responsiveness and communications of the external auditors;
- discussing with the external auditors the key controls they rely on to address identified risks to audit quality;
- keeping the external auditors' team under review to ensure it has the necessary expertise, experience and understanding of the business, as well as having the time and resources to carry out its audit effectively; and
- regularly reviewing, and feeding back to the external auditors, an assessment of their performance on matters including meeting the audit programme, the thoroughness and perceptiveness of their reviews and the quality of their technical expertise.

The fees paid to the external auditors for audit and non-audit work are set out in Note 7 to the financial statements. The ratio of audit work to non-audit work was 6.6:1.

The Committee safeguards the external auditors' objectivity by reviewing their report where they detail the measures they take to maintain their independence and manage any potential conflicts of interest. BSI's external auditor independence policies reflect best practice. Any proposed provision of non-audit work by the external auditors that is not material is subject to thorough review by the Finance Director, in conjunction with the external auditors, to ensure there is no threat to the independence or objectivity of the external auditors. Any concerns that the Group Finance Director may have, and all other such matters, are discussed with the Chairman of the Committee and, if required, referred to the Committee for its consideration.

PricewaterhouseCoopers LLP have been the BSI Group's external auditors for more than ten years. There are no contractual obligations restricting the Company's choice of auditors. In 2013, in accordance with best practice, the Company undertook a re-tendering exercise for the selection of the auditors. A thorough review process was carried out and PricewaterhouseCoopers LLP were retained as the Company's external auditors but with a new team. At least once every ten years the external audit services contract will be put out to tender. PricewaterhouseCoopers LLP rotate the audit partner role at intervals of no more than five years and Owen Mackney became PricewaterhouseCoopers LLP's audit partner for BSI at the beginning of 2018.

The Committee considers that the relationship with the external auditors continues to work well, remains satisfied with their effectiveness and has no current intention of re-tendering the external audit services contract. The Committee has recommended to the Board that PricewaterhouseCoopers LLP be re-appointed as the Company's auditors at the 2019 Annual General Meeting.

By Order of the Board

Douglas Hurt
Chair of the Audit Committee
20 March 2019

Introduction by John Hirst

Chair of the Nominations Committee

During the year ended 31 December 2018 the Committee comprised:

Sir David Brown
(Chair to 31 December 2018)

Douglas Hurt

Howard Kerr

Alicja Lesniak
(to 31 March 2018)

Stephen Page

Lucinda Riches

Alison Wood

On 31 December 2018 Sir David Brown left the Committee and on 1 January 2019 John Hirst joined the Committee as its Chair.

"There is a continuing assessment of the balance of skills, knowledge, experience and diversity on the Board and a formal, rigorous and transparent procedure for the appointment of new Directors."

One of the main areas of focus of the Nominations Committee (the 'Committee') during 2018 was Chairman succession. In light of Sir David Brown's term as Chairman of BSI coming to an end on 31 December 2018, a recruitment process was undertaken for a successor, led by Lucinda Riches as Senior Independent Director. The Committee agreed a description of the role and of the capabilities required, following an evaluation of the balance of skills, experience, independence and knowledge required. It then authorized the Senior Independent Director and Chief Executive to contract with a recruitment consultant to seek appropriate candidates based on merit, against the objective criteria set out in the description and, in accordance with the Board Equality and Diversity Policy, paying particular attention to the merits of diversity on the Board. Odgers Berndtson was selected, by reason of its expertise and its broad pool of potential candidates, to handle the agreed recruitment. This firm has no connection with BSI other than having acted from time to time, when selected, to assist with Board and senior level recruitment. A shortlist was drawn up by the recruitment consultants for the role, suitable candidates were considered in detail and interviewed by Lucinda Riches, Howard Kerr, other members of the Committee and the Executive Directors so that the final selection could be recommended by the Committee to the Board for appointment. Following this process, I was appointed to the Board on 15 October 2018 initially as Non-Executive Director and Chairman Designate and, following the retirement of Sir David Brown on 31 December 2018, I became Chairman of BSI on 1 January 2019 and joined the Committee as its Chair.

Alicja Lesniak also retired from the Board and the Committee, on 31 March 2018. The recruitment process for a Non-Executive Director to succeed her is well advanced and we hope to make an announcement soon.

During 2018, as is the Committee's established practice, it undertook its annual rolling review of the Board and Committee succession plan, having regard to the implications of the Group's strategic trajectory for the longer-term composition of the Board. In light of the 2019–2021 strategic plan the Committee considered whether there was any significant gap in the Board's collective expertise that should influence succession planning and, while it was agreed that there was no such gap at present, the Committee would keep the matter under review. The Committee also received and discussed an update from the Chief Executive on the Group's talent and succession programme for the senior leadership team and intends to review this regularly to help ensure that the Group has the appropriate talent in place to meet the opportunities and challenges arising from the implementation of its strategy.

For 2019, in addition to addressing any Board recruitment as necessary, the Committee will continue to consider the implications on Board composition of the Group's strategic plan and will also review the senior leadership succession plan for critical roles below the Board.

John Hirst
Chair of the Nominations Committee
20 March 2019

The Nominations Committee

In 2018, the Committee maintained its continuing assessment of the balance of skills, knowledge, experience and diversity on the Board.

The Committee is established by the Board under the terms of reference, reviewed annually, and most recently updated in December 2018. A copy of the Committee's terms of reference is available on the BSI Group website.

Key responsibilities of the Committee

These include:

- reviewing the size, structure and composition of the Board and making recommendations to the Board on these matters;
- drawing up succession plans for the Directors; and
- maintaining an overview of the leadership needs of the organization generally.

There is a continuing assessment of the balance of skills, knowledge, experience and diversity on the Board and a formal, rigorous and transparent procedure for the appointment of new Directors.

Activities of the Committee

During the year the Committee, among other things:

- made a recommendation to the Board regarding the annual re-appointment of the Chairman;
- nominated the Directors standing for re-election at the Annual General Meeting;
- undertook the recruitment process for the appointment of Non-Executive Director and Chairman Designate;
- considered Board succession with regard to Board and Board Committee weight and balance, considering both Executive and Non-Executive Directors;
- undertook the recruitment process for a further Non-Executive Director and a new Chair of the SPSC;
- considered the organization-wide talent development programme and succession planning and reviewed proposed action and resource plans; and
- reviewed the Group leadership's competencies and leadership capabilities in the context of the new organizational structure.

There is an annual work plan in place that specifies the key agenda items for each scheduled meeting of the Committee to ensure that all formal matters have been addressed. Ad hoc meetings are held when necessary to consider particular matters, for example a recruitment to the Board.

Nominations Committee attendance

The Committee met six times in the year ended 31 December 2018.

Attendance	Jan	Mar	May	Jun	Sep	Dec
Sir David Brown (Chair)	●	●	●	●	●	●
Douglas Hurt	●	●	●	●	●	●
Howard Kerr	●	●	●	●	●	○
Alicja Lesniak	●	●				
Stephen Page	●	●	○	●	●	●
Lucinda Riches	●	●	●	●	●	○
Alison Wood	●	●	●	●	●	●

● Attended ○ Did not attend

When not able to attend meetings, members reviewed the papers in advance and passed their comments to the Chair. After the meeting they received a debrief from the Chair.

Board equality and diversity policy

The Board takes the issues of equality and diversity seriously and follows an established Group-wide policy of using the talent and skills available in all groups and communities in the countries in which the Group operates 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. The Board applies the same policy to its own composition. When nominating new Directors, the Nominations Committee carefully considers the balance of skills, experience and knowledge required for the Board to discharge its duties and responsibilities effectively in order to determine the desired attributes for particular appointments. Such considerations pay particular attention to the merits of diversity.

Since all Board appointments are made on merit, taking the benefits of diversity fully into account, the Board considers that it would be inappropriate to set targets for the percentage of female Directors. However, it will report annually on the diversity of the Board. Details of the gender distribution of the Board, as well as of senior management and employees in the BSI Group as a whole, may be found in the Social responsibility review on page 44.

By Order of the Board

John Hirst
Chair of the Nominations Committee
20 March 2019

Introduction by Alison Wood

Chair of the Remuneration Committee

During the year ended 31 December 2018 the Committee comprised:

Alison Wood
(Chair)

Douglas Hurt

Stephen Page

Lucinda Riches

"BSI's remuneration policy and strategy underpin the successful delivery of BSI's strategy and the Committee continues to work hard to ensure that they are relevant and effective."

In setting Executive remuneration and advising on the reward structure for the wider organization, the Remuneration Committee (the 'Committee') aims to ensure alignment with the purpose of The British Standards Institution. The Committee gives particular focus to ensuring that overall remuneration levels are deemed to be appropriate with the ethos of a Royal Charter Company.

BSI operates in a competitive business environment. BSI's Executives drive the commercial success of the organization so that growth and profitability can increase BSI's capacity to extend and deepen its positive impact on business and society.

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

This report sets out performance and reward in 2018 and the policy for 2019 for the Executive Directors. The report also outlines the way the Committee is steering a review of remuneration strategy for the whole Group to ensure it remains fit for purpose as the Group evolves. This review includes a broadening of the LTIP scheme to include a greater number of executives and benchmarking of salaries across all our chosen sectors. BSI's new remuneration strategy will help us ensure we are able to motivate, retain and recruit when required the key skills we need in our markets to grow as intended in the strategic plan.

Transparency in remuneration reporting is an important aspect of good governance and this report aims to reflect developing best practice to the extent practicable for a company of BSI's type and size.

Performance and reward for 2018

2018 saw a continuation of BSI's strong financial performance although the rate of profit growth slowed in 2018, reflecting the impact of essential investments into the business to support longer-term growth. Maintaining an appropriate balance between annual and longer-term incentives is a key aspect of BSI's remuneration strategy. With no ability to draw on share capital BSI must build its reserves in order to make acquisitions, invest in the business and contribute to the longer-term strength of the Group. When reviewing the overall reward of the Executives, particularly the variable remuneration element, the Committee takes into consideration the extent to which the achievement of the rewards under schemes has positively contributed to BSI's resilience in that way.

The Group has continued to execute its strategy, securing significant organic growth in each of its Knowledge, Assurance Services, Professional Services and new Regulatory Services streams as well as the successful completion of an acquisition. The NSB continues to increase its global outreach and has

Remuneration Committee attendance

The Committee met four times in the year ended 31 December 2018.

Attendance	Jan	Mar	Sep	Dec
Alison Wood (Chairman)	●	●	●	●
Douglas Hurt	●	●	●	●
Stephen Page	●	●	●	●
Lucinda Riches	●	●	●	●

● Attended

played a significant role in informing the UK Government's considerations on the impact of Brexit on the UK's position in the global standards arena.

The payments made to the Executive Directors under BSI's variable pay arrangements reflect the success of the Group in 2018.

I am pleased to report that Group Profit for the Annual Bonus Plan (GPB) and revenue met the challenging target levels set before the year began and resulted in bonus payments under the Annual Bonus Plan at target levels. In determining GPB, the Committee exercised its discretion in disregarding the one-off effect of certain investment adjustments.

LTIP awards, intended to provide incentive for growth over a longer time scale, in accordance with the Group's strategic plan, vested at the maximum level for 2018, as the thresholds for Group Profit for the LTIP (GPL) and revenue targets set in 2016 were exceeded.

In 2018, the Group achieved record underlying revenue and profit and the Executive Directors' variable pay earnings reflected their success in achieving and exceeding the strategy targets set in earlier years.

Further details may be found in the 'Variable pay' section on pages 72 and 73.

Discretionary decisions made in 2018

The Committee retains discretionary power regarding certain areas of Executive Directors' remuneration. Other than with respect to the determination of GPB, the Committee did not exercise its discretionary power with regard to Executive Director remuneration during 2018.

Remuneration policy for 2019

There have been no revisions to the policy for 2019 and details are set out in the 'Remuneration policy 2019' table on pages 74 and 75.

In keeping with prior years, the 2019 targets set for the Annual Bonus Plan will provide incentive to deliver excellence in execution with the focus on profit achievement over the forthcoming year. Targets for the LTIP award are intended to provide incentives to the Executive Directors to achieve the significant growth in revenue and profit by 2021 that are set out in the strategic plan. The targets for both schemes will continue to be challenging as the Group focuses on managing risk in the current volatile business environment.

2019 focus

There are two areas of focus in 2019 for the Committee.

First, the Committee will continue to drive the fundamental review of the Group's remuneration structure for Executive Directors, the executive team and the wider organization, to ensure it remains relevant to the Group's structure and effective in providing reward and incentive as the Group develops. Advice is being sought and a comprehensive benchmarking exercise is being undertaken to establish a fair and transparent basis for remuneration in the Group. The review is intended to complete in 2019 and will help BSI motivate, retain and attract the people needed to deliver its future ambitions.

Second, in line with the developing global perspective, the Committee will continue to drive for increased transparency and disclosure so that we can monitor progress in pay parity and gender pay equality. In addition, a workforce engagement mechanism is being developed and the Committee will take into account feedback from that.

BSI's remuneration policy and strategy underpin the successful delivery of BSI's strategy and the Committee continues to work hard to ensure that they are relevant and effective.

Alison Wood

Alison Wood
Chair of the Remuneration Committee
20 March 2019

The Remuneration Committee

The Committee is established by the Board under terms of reference that are annually reviewed and which were most recently updated in December 2018. A copy of the Committee's terms of reference is available on the BSI Group website.

Membership

During the year ended 31 December 2018 the Committee comprised:

- Alison Wood (Chair)
- Douglas Hurt
- Stephen Page
- Lucinda Riches

When appropriate, Sir David Brown, John Hirst, Howard Kerr, Craig Smith, Alicja Lesniak and the Group HR Director, Angela Paradise, have been invited to the Committee to attend its meetings. Directors do not attend meetings in which their own remuneration is under consideration.

The Committee has access to specialist advice from executive reward consultants when required. Advisors are appointed for specific work, following a review of comparable firms, so that the Committee can be satisfied that their advice is objective and independent. During 2018 external advice was sought from Mercers on the Chairman's fee and Willis Towers Watson regarding benchmarking the remuneration of senior executives.

Key responsibilities of the Committee

These include:

- determining policy for the remuneration of the Company's Executive management and other key staff, taking into account all factors the Committee deems necessary, including relevant legal and regulatory requirements;
- reviewing the continuing appropriateness and relevance of the remuneration policy; and
- approving the design of, and determining targets for, any senior management performance related pay schemes operated by the Company and approving the total annual payments made under such schemes.

The Committee is delegated by the Board to determine and oversee the operation of the Company's remuneration policy relating to senior management, excluding the Non-Executive Directors.

Activities of the Committee

During the year the Committee, among other things:

- agreed salary increases for the Executive Directors and the executive team;
- reviewed and confirmed the targets for the 2018 Annual Bonus Plan and 2018 LTIP awards;
- approved the Directors' remuneration report in the Company's 2017 Annual Report;
- reviewed and agreed an uplift to the Chairman's fee to be approved at the AGM;
- considered and agreed payments under the 2017 bonus plan and the LTIP awards granted in 2015;
- agreed a foundation for setting and agreeing remuneration policy and strategy across the Group;
- reviewed the remuneration of senior executives against benchmarking data, in light of the business transformation;
- received updates on key recruitment;
- considered the extension of the membership of LTIP;
- received proposals for rationalizing bonus schemes across the Group; and
- agreed the treatment of annual bonus and LTIP awards for executives who would be leaving the Group.

An annual work plan is in place that specifies the key agenda items for each scheduled meeting of the Committee. This largely revolves around the annual financial results and the payments and awards which are related to them. Other matters are included to ensure that the Committee acts in compliance with its terms of reference.

Aligning remuneration to the delivery of BSI's strategy

BSI's key financial objectives are to reach revenue of at least £625m and underlying operating profit of at least £80m by 2020 by pursuing a strategy of a judicious blend of organic and acquisitive growth.

The Executive Directors are responsible for implementing the Group's strategy so that BSI can achieve its objectives and they must strike a careful balance between managing the Group to achieve excellent annual results with making the investments within the Group and in acquisitions that are required to secure longer-term goals.

The two variable pay elements within BSI's Executive Directors' remuneration arrangements reflect this balance between near-term and longer-term ambitions. The Annual Bonus Plan is designed to ensure that the Executive Directors focus on annual financial performance, primarily the achievement of Group profits, which provide the Group with its financial strength, while not neglecting revenue growth and personal objectives.

The LTIP is designed to encourage the Executive Directors to take a longer view, with challenging targets based on future revenue and Group profit objectives determined by the Board in line with the Group's long-term strategy. Balancing these near-term and longer-term targets, and the effect each has on the other, helps ensure an appropriate balance of risk.

The Committee keeps the variable pay targets under continual review to ensure that they properly reflect the aspirations of the strategic plan.

The Committee will continue to monitor the design and operation of the Group's variable pay elements to make sure they are effective in providing incentives to the Executive Directors to execute the Group's strategy successfully and to achieve the objectives set out in the strategic plan. It will also keep the fixed pay elements under review to make sure the Executive Directors remain a stable and motivated team as they work towards the achievement of the strategic plan.

Each year the Board sets stretching targets for profit and revenue growth. Payments made to the Executive Directors for 2018 reflect the achievement of the 2018 Annual Bonus Plan targets, shown on page 72, and of the 2016 LTIP targets, also shown on page 72.

2018 remuneration

Single figure total (audited information)

Director	Salaries and fees Year ended 31 Dec 2018 £'000	Salaries and fees Year ended 31 Dec 2017 £'000	Taxable benefits[1] Year ended 31 Dec 2018 £'000	Taxable benefits[1] Year ended 31 Dec 2017 £'000	Pension benefits[2] Year ended 31 Dec 2018 £'000	Pension benefits[2] Year ended 31 Dec 2017 £'000	Variable pay receivable for 2018 – Bonus Year ended 31 Dec 2018 £'000	Variable pay receivable for 2018 – Bonus Year ended 31 Dec 2017 £'000	Variable pay receivable for 2018 – LTIPs Year ended 31 Dec 2018 £'000	Variable pay receivable for 2018 – LTIPs Year ended 31 Dec 2017 £'000	Total Year ended 31 Dec 2018 £'000	Total Year ended 31 Dec 2017 £'000
Executives												
Howard Kerr[3]	**458**	434	**25**	24	**–**	–	**200**	348	**360**	350	**1,043**	1,156
Craig Smith[4]	**337**	324	**26**	25	**–**	–	**120**	213	**206**	201	**689**	763
Scott Steedman[5]	**297**	269	**15**	15	**12**	7	**110**	188	**161**	158	**595**	637
	1,092	1,027	**66**	64	**12**	7	**430**	749	**727**	709	**2,327**	2,556
Chairman												
Sir David Brown[6]	**161**	156	**6**	6	**–**	–	**–**	–	**–**	–	**167**	162
Non-Executives												
John Hirst[7]	**9**	–	**–**	–	**–**	–	**–**	–	**–**	–	**9**	–
Douglas Hurt	**44**	39	**–**	–	**–**	–	**–**	–	**–**	–	**44**	39
Alicja Lesniak[8]	**11**	44	**–**	1	**–**	–	**–**	–	**–**	–	**11**	45
Stephen Page	**45**	39	**2**	1	**–**	–	**–**	–	**–**	–	**47**	40
Lucinda Riches	**43**	44	**–**	–	**–**	–	**–**	–	**–**	–	**43**	44
Alison Wood	**46**	44	**1**	1	**–**	–	**–**	–	**–**	–	**47**	45
	359	366	**9**	9	**–**	–	**–**	–	**–**	–	**368**	375
Total	**1,451**	1,393	**75**	73	**12**	7	**430**	749	**727**	709	**2,695**	2,931

1 The taxable benefits for the Chairman and Non-Executive Directors relate to the reimbursement of travelling expenses to meetings held at the Company's principal office and applicable grossed-up tax thereon.

2 Contributions made by the Company outside of salary sacrifice arrangements.

3 Salary includes £61,482 (2017: £58,301) supplement in lieu of pension contributions.

4 Salary includes £38,537 (2017: £37,109) supplement in lieu of pension contributions.

5 Salary includes £26,399 (2017: £23,069) supplement in lieu of pension contributions.

6 Retired on 31 December 2018.

7 Appointed Non-Executive Director and Chairman Designate on 15 October 2018.

8 Retired on 31 March 2018.

Salaries and fees shown above 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 2018 (2017: none).

Fixed pay

Base salary during 2018

Per annum base salary	To 28 February 2018	From 1 March 2018
Howard Kerr	£377,500	£400,000
Craig Smith	£288,250	£300,000
Scott Steedman	£250,000	£275,000

The Remuneration Committee continued

Variable pay

Annual bonus for 2018

Annual bonuses for the year ended 31 December 2018 were provided under the Annual Bonus Plan to Howard Kerr, Craig Smith and Scott Steedman, by the Committee, in accordance with the policy set out in the Annual Report 2017 Directors' remuneration report. Actual annual bonus amounts earned are based on salary and dependent upon the achievement of targets for Group profit for the Annual Bonus Plan (GPB), revenue and personal objectives. GPB was defined as 'underlying operating profit before discretionary bonus charges, LTIP charges and all foreign exchange adjustments'. Personal objectives are set and are measured by the Chairman for the Chief Executive and by the Chief Executive for the other Executives; all are reviewed by the Committee.

The table below sets out the percentage of base salary upon which potential 2018 annual bonuses were based:

Base salary basis of annual bonuses	On-target GPB	On-target revenue	On-target personal objectives	On-target award based on base salary	Payable on achievement of 110% of GPB target up to	Maximum award possible
Howard Kerr	30%	10%	10%	50%	50%	100%
Craig Smith	24%	8%	8%	40%	40%	80%
Scott Steedman	24%	8%	8%	40%	40%	80%

The target levels set for 2018 were GPB of £76.6m and revenue of £512.1m at budgeted exchange rates. A threshold, representing 90% of both targets, had to be met before any bonus is earned. The total bonus percentage for on-target performance would be doubled if GPB reaches 110% of target. Bonus is earned on a straight-line basis from threshold to target and from 100% to 110% of GPB target if applicable. Personal objectives for Howard Kerr included implementation of the business transformation programme; specific stream, sector and domain development; and a focus on risk management within the organization's risk appetite. Craig Smith's personal objectives included the reorganization of the finance structure in light of the business transformation; implementation of the Financial Reporting Project; and a strengthening of the internal audit and risk function. Scott Steedman's personal objectives included mitigating the risk and pursuing opportunities of Brexit; increasing BSI's focus on the Built Environment sector; and developing BSI's position as a Global Standards Organization.

Actual GPB at budget exchange rates achieved for 2018 was £76.6m (100.0% of GPB target). This is calculated as UOP at actual exchange rates of £61.8m, adjusted by adding back LTIP charges of £1.2m, bonus charges of £13.0m, amortization of acquired intangibles of £2.4m, an exchange adjustment of £0.6m and discretionary adjustments by the Committee of £(2.4)m relating to the impact of changes to accounting standards and investment spend. Actual revenue achieved for 2018 was £511.9m. This is increased by an £0.9m exchange adjustment to £512.8m at 2018 budget exchange rates. The annual bonuses earned in respect of 2018 were:

	Percentage of base salary					
2018 annual bonus payments (audited information)	Actual award based on GPB	Actual award based on revenue	Actual on-target award based on personal objectives	Payable on achievement of 100% or greater of GPB	Total actual award	Actual award
Howard Kerr	30%	10%	10%	0%	50%	£200,000
Craig Smith	24%	8%	8%	0%	40%	£120,000
Scott Steedman	24%	8%	8%	0%	40%	£110,000

Long Term Incentive Plan vesting in 2018 (audited information)

In 2016, Howard Kerr, Craig Smith and Scott Steedman, as participants in the LTIP, were awarded participation units (PUs), in accordance with the policy set out in the Annual Report 2015 Directors' remuneration report, with the proportion of those PUs vesting depending on the achievement of Group Profit for the LTIP (GPL) and revenue targets for the third financial year after award, i.e. for the year ended 31 December 2018. GPL was defined as 'underlying operating profit before LTIP charges and all foreign exchange adjustments'. Each vesting PU would provide £1.00.

For the LTIP awards made in 2016, the target levels for 2018 were GPL of £46.6m and revenue of £402.2m at 2016 budget exchange rates. Vesting would be on a predetermined scale beginning with 10% vesting at the minimum performance threshold of GPL of £44.3m and revenue of £382.1m, 50% vesting at the on-target performance and a maximum of 150% vesting at the maximum performance threshold of GPL of £49.3m and revenue of £425.3m. Vesting would be on a straight-line basis between performance levels.

Actual GPL at 2018 budget exchange rates was £63.3m, calculated as UOP at actual exchange rates of £61.8m, adjusted by adding back the LTIP charges of £1.2m and an exchange adjustment of £0.3m. Actual revenue achieved for 2018 was £511.9m. This is increased by a £0.9m exchange adjustment to £512.8m at 2018 budget exchange rates. Maximum vesting was provided under the LTIP and the number of PUs vesting and the payments made were:

Long Term Incentive Plan vesting 2018	PUs awarded 2016	Vesting	Payment 2018
Howard Kerr	239,860	150%	£359,790
Craig Smith	137,500	150%	£206,250
Scott Steedman	107,500	150%	£161,250

Long Term Incentive Plan awarded in 2018 (audited information)

In 2018 the Executive Directors were awarded PUs under the LTIP. A proportion of those would vest, depending upon the achievement of Group profit for the LTIP (GPL) and revenue targets for the third financial year after award, i.e. for the year ended 31 December 2020. GPL is defined as underlying operating profit before LTIP charges and all foreign exchange adjustments. The PUs awarded under the LTIP in 2018 were:

2018 LTIP awards	Basis – salary multiple	PUs awarded 2018	Vesting at minimum performance at threshold	Vesting at on-target performance	Vesting at maximum performance	End of period (i.e. performance period)
Howard Kerr	67%	252,925	10%	50%	150%	31 December 2020
Craig Smith	50%	144,125	10%	50%	150%	31 December 2020
Scott Steedman	50%	125,000	10%	50%	150%	31 December 2020

Total LTIP awards held

LTIP awards held	Howard Kerr	Craig Smith	Scott Steedman	Vesting at minimum performance at threshold	Vesting at on-target performance	Vesting at maximum performance	End of period (i.e. performance period)
PUs awarded 2018	252,925	144,125	125,000	10%	50%	150%	31 December 2020
PUs awarded 2017	245,890	140,375	110,250	10%	50%	150%	31 December 2019
Total PUs held	498,815	284,500	235,250				

Pension contributions

The Company paid the equivalent of 18% of Howard Kerr's base salary and 15% of Craig Smith's base salary as salary supplements in lieu of pension contributions. The Company paid a total of 15% of Scott Steedman's base salary into the BSI UK Pension Plan and as a salary supplement in lieu of pension contributions. Salary supplements were calculated as the equivalent cost to BSI, taking into account the National Insurance paid.

Loss of office payments (audited information)

No payments for loss of office were made in 2018 (2017: £nil).

Payments to past Directors (audited information)

No payments to past Directors were made in 2018 (2017: £nil).

Remuneration of the Chief Executive

Table of historic data (audited information)

	Chief Executive single figure remuneration total £'000	Annual bonus payout against maximum	LTIP vesting rates against maximum
2018	1,043	50.0%	100.0%
2017	1,156	92.2%	100.0%
2016	1,151	98.7%	100.0%
2015	1,119	97.8%	100.0%
2014	765	95.3%	—
2013	596	50.5%	—
2012	576	51.0%	—
2011	792	59.1%	66.6%
2010	706	100.0%	—
2009	798*	64.8%	—

* Includes £215,000 relocation contribution.

Howard Kerr was Chief Executive for each year shown.

2018 remuneration change from 2017

	% change in salary	% change in taxable benefits	% change in bonus
Chief Executive	+5.46%	+1.47%	-42.53%
UK employees	+2.66%	-0.79%	-25.00%

UK employees (comprising full-time and part-time employees and fixed term contract staff) have been chosen as the comparator group because the Chief Executive is employed in the UK and is mainly affected by the UK's economic and employment market conditions.

The Remuneration Committee continued

Executive Directors' Non-Executive Directorships

In order to encourage professional development, Executive Directors may, with the agreement of the Board, take on an external Non-Executive Directorship. None of the Executive Directors had a Non-Executive Directorship during the period covered by this report.

Statement of implementation of Directors' remuneration policy

During 2018, all Directors' remuneration was awarded within the policy set out in the Directors' remuneration report in the Annual Report and financial statements 2017.

Remuneration policy 2019

The Directors' remuneration policy is set out in the table opposite. It applies to remuneration awards made from 1 January 2019 and is set for a period of one year. There is no change from the policy operated in 2018. The Committee aims to maintain a Directors' remuneration policy that is stable and clearly defined but which evolves, over the longer term, to remain relevant to the needs of the Group's business and to reflect the wider employment market. The policy establishes demanding performance targets that align the Annual Bonus Plan with shorter-term objectives and the LTIP with the Group's longer-term strategy. The Committee reviews the policy in advance of the remuneration policy year to ensure it is appropriate and effective in meeting these requirements.

Policy discretion

The Committee retains discretionary power with regard to certain areas of Directors' remuneration. For variable pay, the Committee retains the discretion to adjust payments up or down in exceptional circumstances. If employment ceases during a vesting period LTIP awards will normally lapse in full; however, the Committee reserves the discretion to allow some or all PUs to subsist in appropriate circumstances. In addition, the Committee reserves the right to apply discretion in exceptional circumstances, as it sees fit, regarding payments on appointment and for termination payments.

Element and how it supports long and short-term strategy	Operation and recovery
Salary and fees (Fixed) By attracting, retaining and motivating individuals of the quality required to further the interests of the Company.	The base salaries of Executive Directors are determined by reference to an individual's responsibility and performance and are reviewed annually. Consideration is given to remuneration in comparable organizations when appropriate and external benchmarking is carried out biennially. Executive Directors may, by agreement with the Board, serve as Non-Executive Directors of other companies and retain any fees paid for their services. Non-Executive Directors receive a fee for their services to the Company which is reviewed annually.
Benefits (Fixed) 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, annual leave as well as medical and life insurance. The Non-Executive Directors do not receive benefits in kind except reimbursement of the costs of travel to meetings at the Company's principal office and grossed-up tax thereon.
Pension benefits (Fixed) By providing a cost-effective retirement benefit as part of an overall remuneration package.	For Executive Directors the Company makes contributions into defined contribution pension arrangements or provides a cash alternative.
Bonuses (Variable) By providing Directors with incentive 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. Clawback has been introduced for awards from 2016 onwards. The Remuneration Committee retains the discretion to adjust payments up or down in exceptional circumstances where it feels this course of action is appropriate.
LTIPs (Variable) By providing Directors with incentive to align their performance to the delivery of longer-term strategic aims and goals of the business and to retain senior Executive talent.	These are awarded to Executive Directors subject to the fulfilment of longer-term criteria, determined with reference to BSI's objectives. The targets are established annually and amended if necessary. Awards are subject to malus and clawback provisions. The Remuneration Committee retains the discretion to adjust payments up or down in exceptional circumstances where it feels this course of action is appropriate. If employment ceases during the vesting period awards will normally lapse in full.

Notes:

- Performance conditions have been selected by the Committee to provide incentive for performance and are kept under review.
- Remuneration is intended to attract, retain and motivate individuals and is provided at a level appropriate to their role.

Maximum value	Performance metrics	Changes from 2018 policy
	Not applicable.	
	Not applicable.	
	Not applicable.	
Maximum bonuses for Howard Kerr, Craig Smith and Scott Steedman are 100%, 80% and 80% of base salary, respectively.	Award payments are dependent upon the achievement of targets weighted as follows: as a percentage of base salary, targets are based for Howard Kerr: i) 30% on Group profit for the Annual Bonus Plan (GPB), ii) 10% on revenue, and iii) 10% on personal objectives, plus up to 50% if GPB reaches 110% of target; and for Craig Smith and Scott Steedman: i) 24% on GBP, ii) 8% on revenue, and iii) 8% on personal objectives, plus up to 40% if GPB reaches 110% of target.	
A maximum of 150% of participation units (PUs) may vest depending on target achievement.	PUs are awarded to Executive Directors by the Remuneration Committee. Award payments are dependent upon the achievement of targets weighted as follows: as a percentage of base salary, targets are based: i) 25% on 'Group profit for the LTIP' and ii) 75% on revenue; a proportion of these vest depending on the achievement of 'Group profit for the LTIP' and revenue growth targets for the third financial year after award. Awards made are on a discretionary basis.	

Remuneration policy 2019 continued

Statement of principles for new Executive Director recruitment

The Committee oversees the setting, within the Directors' remuneration policy, of the total remuneration package of new Executive Directors. This comprises the fixed pay elements of base salary, benefits and pension plan contributions and the variable pay elements of annual bonus and Long Term Incentive Plan awards, all of which are internally and externally benchmarked. The maximum level of variable pay is set within the Directors' remuneration policy. BSI does not normally either offer 'sign-on' awards or compensate recruits for forfeited amounts; however, the Committee reserves the right to apply discretion in this area as it sees fit.

Policy on notice periods

No Director has contractual rights for compensation on early termination beyond payment of the contractual notice period. Executive Directors have rolling contracts setting out notice periods as shown in the following table:

	Appointment commenced	Notice period provided for
Howard Kerr	1 November 2008	12 months by either party
Craig Smith	15 August 2011	6 months by either party
Scott Steedman	1 October 2012	6 months by either party

The Chairman is re-appointed by the Board each year upon the recommendation of the Nominations Committee. Except where indicated, the appointment of Non-Executive Directors is for periods of three years but is subject to re-appointment at AGMs in accordance with the Bye-laws. The Non-Executive Directors do not have service contracts. Details of their letters of appointment are as follows:

	Date of appointment	Role
John Hirst	15 October 2018	Non-Executive Director
	1 January 2019	Chairman
Douglas Hurt	1 November 2015	Non-Executive Director
	1 November 2018	Re-appointed
Stephen Page	1 September 2015	Non-Executive Director
	1 September 2018	Re-appointed
Lucinda Riches	19 May 2011	Board Advisor
	17 May 2012	Non-Executive Director
	22 May 2014	Re-appointed
	18 May 2017	Re-appointed
Alison Wood	1 September 2014	Non-Executive Director
	1 September 2017	Re-appointed

Approach of the Company in setting Non-Executive Director fees

BSI is justifiably proud of the calibre of the Non-Executive Directors on its Board. In order to retain and, when the need arises, recruit Non-Executive Directors of high quality, the Company must ensure their remuneration recognizes the knowledge and experience they bring to the Board, their time commitment as well as being comparable with the fees paid in similar organizations. Their fees are determined by the Board (with the Non-Executive Directors not present) on the recommendation of the Chairman and Chief Executive. The Chairman's fee is determined by the Committee.

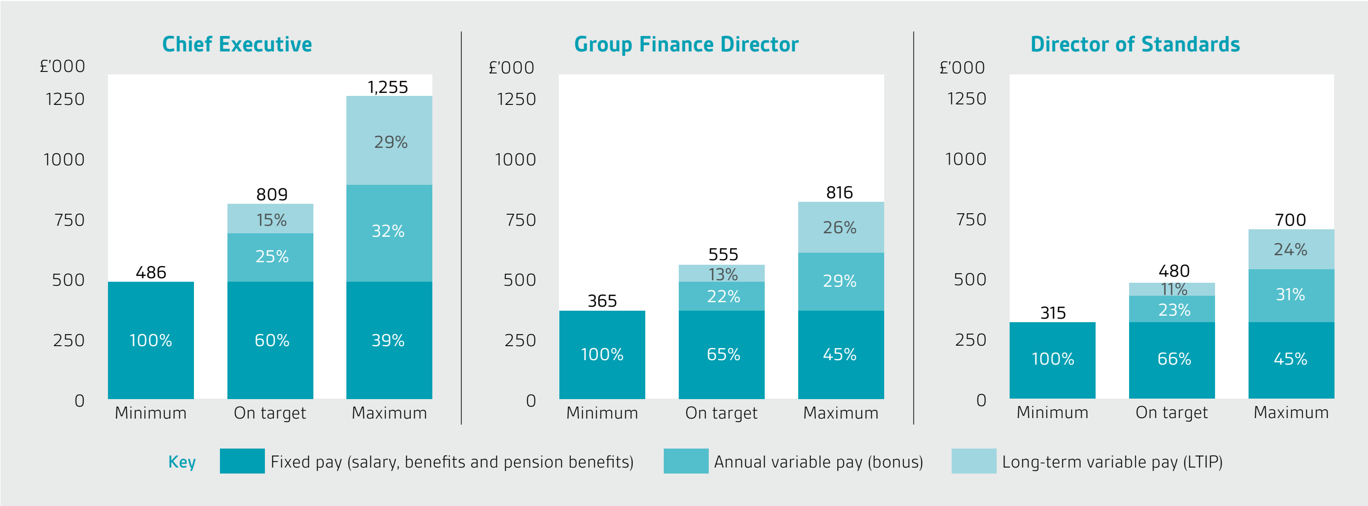
Policy on termination payments

The Company may, at its absolute discretion, terminate the employment of Executive Directors by paying a sum equal to the salary and benefits to which they would have been entitled during their notice period. Alternatively, an individual may be asked to work some or all of the required contractual notice period. Ancillary payments such as those to cover out-placement consultancy may also be made.

Nothing would be payable in the event of termination for gross misconduct. Redundancy payments are made based on the local employment legislation and prevailing terms in force within the Company at that point in time. Compensation for any outstanding bonus payments is determined by reference to the terms of the individual's current bonus letter. Non-Executive Directors have no right to any termination payments other than in the case of one month's fee paid in lieu of notice. The Board is responsible for any such Non-Executive Director termination arrangements. The Committee, overseen by its Chairman, is responsible for the setting of any termination payments for the Chairman and Executive Directors and it reserves the right to apply discretion as it sees fit in relation to the above.

Illustration of the application of the Directors' remuneration policy for 2019

The charts below provide an illustration of what could be received by each Executive Director for 2019, which is the year of application of the stated remuneration policy:



Notes:

- Minimum means fixed pay only (i.e. base salary, benefits and pension benefits), i.e. below the payment threshold for variable pay awards.
- On target means fixed pay, an award equivalent to 50%, 40% and 40% of base salary to Howard Kerr, Craig Smith and Scott Steedman, respectively, under the Annual Bonus Plan and vesting of 50% of the PUs awarded to each Director under the LTIP.
- Maximum means fixed pay, an award equivalent to 100%, 80% and 80% of base salary to Howard Kerr, Craig Smith and Scott Steedman, respectively, under the Annual Bonus Plan and vesting of 150% of the PUs awarded to each Director under the LTIP.
- For the purpose of this illustration: fixed pay is based on base salary at 31 December 2018 and actual 2018 benefit and pension benefit amounts; annual bonus awards for potential payment with respect to the 2019 financial year are based on base salary at 31 December 2018; and LTIPs are based on the 2017 awards potentially vesting for the performance period ending 31 December 2019.

Consideration of employment conditions elsewhere in the Group

Salaries and benefits are regularly reviewed and compared to the general market (including FTSE 350 companies), economic indicators and competitor businesses. The survey data is compiled from both generic third-party surveys and specific, targeted research. In considering the salary levels for the Executive Directors, the Committee also considers the employment market conditions and the pay levels across the UK Group. Performance related annual increases for Executive Directors are consistent with those offered at all levels across the UK Group.

The Committee receives regular updates from the Group HR Director regarding remuneration elsewhere in the Group and these are considered during the review of the Directors' remuneration policy. A workforce engagement mechanism is being developed and the Committee will take into account feedback from that.

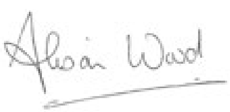
Relative importance of spend on pay

		2018	2017
Employee benefit cost	+11%	**£247.5m**	£222.1m
Revenue	+8%	**£511.9m**	£473.0m
UOP	+4%	**£61.8m**	£59.5m
Headcount	+10%	**4,784**	4,333

Audited information

The Directors' remuneration report is unaudited with the exception of the sections marked to show that they contain audited information.

By Order of the Board



Alison Wood
Chairman of the Remuneration Committee
20 March 2019

Directors' report

The Directors submit their report and audited financial statements for The British Standards Institution and its subsidiaries for the year ended 31 December 2018.

It is the Directors' responsibility to prepare the Annual Report and Accounts and they consider that The British Standards Institution Annual Report and financial statements 2018, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Company's performance, business model and strategy.

Directors' report disclosures

The Chairman's statement and the Strategic report, including the Chief Executive's review, Operational review and Financial review, form part of this report and include:

- disclosure of the key performance indicators used to manage the business;
- likely future developments; and
- gender and human rights disclosures.

The Group has capitalized £0.7m of development costs relating to new training courses and has not expensed any basic research or other development costs.

Corporate governance

The Corporate governance report is set out on pages 56 to 60.

The Board

The members of the Board are listed on pages 52 and 53 and, except where noted below, all held office throughout the year. The Directors were as follows:

John Hirst (appointed 15 October 2018)
Howard Kerr
Craig Smith
Scott Steedman
Sir David Brown (retired 31 December 2018)
Douglas Hurt
Alicja Lesniak (retired 31 March 2018)
Stephen Page
Lucinda Riches
Alison Wood

The Company Secretary is Grainne Brankin.

The Bye-laws give the Directors the power to appoint additional or replacement Directors within the limits set out. The Directors may exercise all powers of the Company subject to statute, relevant regulation and the restrictions set out in the Royal Charter and Bye-laws.

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 and accordingly John Hirst will be offering himself for re-election at the forthcoming Annual General Meeting. In addition, under the Company's Bye-law 9, one-third (rounded down) of the Directors are required to retire by rotation and stand for re-election and therefore Scott Steedman and Douglas Hurt will be standing for re-election at the 2019 Annual General Meeting.

Annual General Meeting

The 2019 Annual General Meeting will be held at 4pm on Thursday 16 May 2019 at 389 Chiswick High Road, London W4 4AL. The business to be considered at the meeting is set out in a separate Notice of Meeting dispatched to the members.

Independent auditors

The BSI Group's auditors for the year ended 31 December 2018 were PricewaterhouseCoopers LLP. A resolution to re-appoint PricewaterhouseCoopers LLP will be proposed at the forthcoming Annual General Meeting.

Directors' and officers' liability

The Group has maintained, throughout the year and to the date of this report, directors' and officers' liability insurance cover in respect of the acts or omissions of its Directors and Executives, and continues to do so. Details of the policy are provided to new Directors on appointment. In common with other companies, the Group has made qualifying third-party indemnity provisions for the benefit of its Directors against liabilities incurred in the execution of their duties.

Employees

The Group communicates and consults with its employees on a wide range of subjects, including those that directly affect them, using email, websites, intranet, in-house publications and meetings at business locations. The employees of the Group are instrumental in its success and the organization works hard to maintain good relationships with its employees around the world through continual communications and employee forums. Periodically the Group conducts a regular employee engagement survey with the results used to identify and then action opportunities to improve engagement.

Further details of the Group's engagement with its employees are set out in the 'Our people' section of the Social responsibility review on pages 42 and 43.

Equality and diversity

The 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 Group uses job related objective criteria in the selection of candidates and when considering development opportunities.

The 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.

Social and environmental issues

A review of the Group's social responsibility activities during the year is set out in the Social responsibility review on pages 41 to 47. This review also contains disclosures of the Group's greenhouse gas emissions. The Company made no political donations during the year (2017: £nil).

Principal risks and uncertainties

The principal risks and uncertainties facing the business are detailed on pages 27 to 29.

Financial instruments

Details of the use and materiality of financial instruments are provided in Notes 20 and 25 to the consolidated financial statements.

Directors' interests

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 Group's business during the period under review. No Director has any beneficial interest in the Company.

Post-balance sheet events

There were no post-balance sheet events.

Going concern

The Group has increasing revenue and profits and has a broad portfolio of clients. It also has a significant cash reserve and no borrowings. The Board maintains in place an effective risk management system and has taken reasonable steps to manage the risks faced by the business. The Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and accordingly have adopted the going concern basis in preparing the Company's and the BSI Group's financial statements.

There have been no material uncertainties identified which would cast significant doubt upon the Company's and BSI Group's ability to continue using the going concern basis of accounting for the twelve months following the approval of this Annual Report.

Viability statement

The Directors have considered the ongoing viability of the BSI Group.

Each year, on a rolling three-year basis, the Directors draw up a strategic plan for the business. The plan is based on a consideration of the Group's markets within the context of the expected economic environment. Based upon an analysis of the strategic capabilities of the Group, a plan is drawn up in line with the risk appetite of the Group as agreed by the Board.

In 2018, the Directors drew up the strategic plan for the Group until the end of 2021. BSI has a long history of underlying revenue and operating profit growth dating back to the last century and this plan showed a continuation of these trends.

While the strategic plan reflects the Directors' best estimate of the future prospects of the business, they have tested and confirmed its validity in scenarios that include severe but plausible changes to the plan assumptions. These scenarios related to demand for BSI's products and services, fluctuations of Sterling compared to the Group's other trading currencies and the availability of sufficient cash to satisfy the Group's obligations and undertake the necessary investments to achieve the key performance indicators.

Based upon the strategic plan to 2021, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for at least that period of time. The Group has a programme of developing its Organizational Resilience in accordance with the principles set out in BS 65000. This will help ensure the Group is better able to anticipate, prepare for, respond to and adapt to incremental change and disruptions, enabling the Group to survive and prosper into the future.

By Order of the Board

Grainne Brankin
Company Secretary
20 March 2019

Financial statements

Consolidated financial statements

Parent company financial statements

Independent auditors’ report

to the Board of Directors of The British Standards Institution

Report on the audit of the Group financial statements

Opinion

In our opinion, The British Standards Institution’s Group financial statements (the ‘financial statements’):

- give a true and fair view of the state of the Group’s affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the ‘Annual Report’), which comprise: the consolidated balance sheet as at 31 December 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

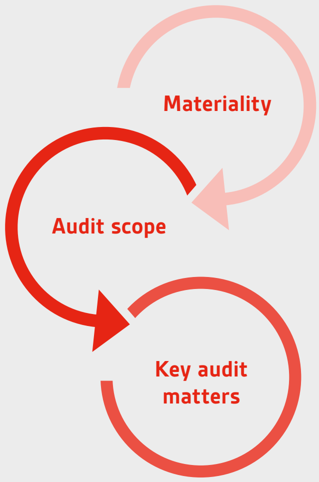
We conducted our audit in accordance with International Standards on Auditing (UK) (‘ISAs (UK)’) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall Group materiality: £2.7 million (2017: £5.4 million), based on 5% of profit before tax.

- We performed an audit of the complete financial information of the BSI Standards Limited, BSI Assurance UK Limited and BSI Group America Inc. operations due to their financial significance to the Group, together with the global head office Group function.
- We performed specified audit procedures at five further reporting locations with the Group engagement team directly performing these audit procedures in the UK, Ireland, and Japan and instructing local teams in Australia and China. The reporting locations subject to audit procedures account for 68% of the Group’s operating revenues and 87% of the Group’s profit before tax.
- The UK Group engagement team also undertook site visits to Singapore, Indonesia and the Netherlands alongside internal audit. In addition, the Group engagement team performed procedures over financial controls at the newly established Financial Shared Service Centre in Malaysia.

- Valuation of defined benefit pension scheme assets and liabilities.
- Consideration of goodwill and intangible assets for impairment.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Independent auditors' report continued

to the Board of Directors of The British Standards Institution

Report on the audit of the Group financial statements continued

Our audit approach continued

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of defined benefit pension scheme assets and liabilities	
The Group has defined benefit pension plans with net retirement benefit obligation liabilities of £73.6m, which are significant in the context of the overall balance sheet of the Group. The valuation of the pension liabilities and pension assets requires significant levels of judgement and technical expertise in choosing appropriate assumptions. The assumptions used to value the pension assets and pension liabilities can be found on page 116 within Note 22 to the financial statements. The Directors employ actuarial experts to assist them in identifying appropriate assumptions and valuing the assets and liabilities in the scheme. We have focused on this area because changes in a number of key assumptions (particularly discount rates, mortality and inflation) can have a material impact on the calculation of the liability. In 2018, as a result of the resolution of a recent legal case, an additional cost has been recognised relating to Guaranteed Minimum Pension ('GMP') equalisation. This has introduced additional estimation uncertainty to the financial statements and has been presented as an exceptional cost in the income statement.	We received and read the report issued to the Directors by the actuary. With the assistance of our own actuarial experts, we evaluated the Directors' assessment, based on guidance from their actuaries, of the assumptions made in relation to the valuation of the pension liabilities and assets. In particular, we tested the assumptions around discount rates, mortality and inflation by comparing them to our independently developed benchmarks. We noted that mortality, discount rate and inflation assumptions were slightly towards the prudent end of the range of these benchmarks. We determined that this stance was consistent both with the expert actuarial advice received by the Directors and the position is in the range at which assumptions were established in prior years. In addition, we have challenged management's actuarial expert's assumptions relating to the GMP equalisation charge and assessed the sensitivities of the underlying assumptions. Based on the work performed we found that the assumptions used were supported by the evidence obtained and the methodology used to be appropriate.
Consideration of goodwill and intangible assets for impairment	
The Group has intangible assets (including goodwill) of £95.5m, which are significant in the context of the overall balance sheet of the Group. In particular, we focused our audit effort on the value-in-use calculations supporting the valuation of intangible assets and goodwill. The Directors' assessment of the 'value in use' of the Group's cash generating units (CGUs) involves judgements about the future results of the business, particularly assumptions around growth rates and the discount rates applied to future cash flow forecasts, where there is a higher degree of sensitivity. Based on historical performance, the Directors believe there is significant headroom between the value in use for all CGUs and their carrying value. This remained an area of focus for us as a result of the size of the related balances.	We evaluated the Directors' future cash flow forecasts, and the process by which they were drawn up, including comparing them to the latest Board-approved budgets and no exceptions were noted in our testing. We also tested the mathematical accuracy of the underlying calculations and we found no material misstatements from our testing. Based on our audit work, we found that the Directors' assumptions were supportable and within a range that we considered to be supportable and reasonable. We challenged the Directors on the adequacy of their sensitivity calculations over all CGUs in respect of the key assumptions above. For all CGUs we calculated the degree to which these assumptions would need to move, individually and in combination, before impairment would be triggered. We discussed the likelihood of such movements arising with the Directors and, based on our understanding of the business and other available evidence, agreed that they were unlikely.

Report on the audit of the Group financial statements continued

Our audit approach continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which it operates.

The British Standards Institution Group is organised on both a business stream and geographic basis. In line with prior years, we have scoped our audit on a geographic basis. The significant components for the purposes of our audit were BSI Standards Ltd., BSI Assurance UK Ltd. and BSI Group America Inc. and a full scope audit was performed for these components.

We also brought smaller components into scope for specified procedures to gain comfort over specific accounts; these were China, Japan, Australia and the Cybersecurity business in UK and Ireland.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£2.7 million (2017: £5.4 million).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for profit oriented entities, in the absence of indicators that an alternative benchmark would be appropriate. We believe that the profit before tax provides us with a consistent year-on-year basis for determining materiality. Forecast profit before tax was used as a benchmark for materiality calculated at the planning stage and communicated to the audit committee in November. The benchmark applied to determine materiality has decreased from 10% to 5% of profit before tax. Given BSI prepares financial statements as if it was a listed public interest entity, we have concluded, together with the Audit Committee, that it is appropriate to apply a materiality benchmark consistent with that applicable for such a listed group.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £128,000 and £1,860,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £270,000 (2017: £500,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

Independent auditors' report continued

to the Board of Directors of The British Standards Institution

Report on the audit of the Group financial statements continued

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the Directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the 'Code'), we are required to report to you if we have anything material to add or draw attention to regarding:

- The Directors' confirmation on page 27 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 79 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the Directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the Directors, on page 78, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the Board of Directors of the Group to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group obtained in the course of performing our audit.
- The section of the Annual Report on page 65 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Report on the audit of the Group financial statements continued

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 61, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Board of Directors of the Group as a body to enable the Board to discharge its stewardship and fiduciary responsibilities under the terms of the Royal Charter and Bye-laws and where applicable and possible the Companies Act 2006 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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of Directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the parent company financial statements of The British Standards Institution for the year ended 31 December 2018 and on the information in the Directors' Remuneration Report that is described as having been audited.

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
20 March 2019

Consolidated income statement

for the year ended 31 December 2018

	Note	**2018 £m**	2017* £m
Revenue	5, 6	**511.9**	473.0
Cost of sales		**(271.7)**	(252.4)
Gross profit		**240.2**	220.6
Selling and distribution expenses		**(61.6)**	(55.6)
Administrative expenses		**(116.8)**	(105.5)
Operating profit before exceptional costs	5	**61.8**	59.5
Exceptional operating costs	7	**(5.3)**	(4.2)
Operating profit	7	**56.5**	55.3
Finance income	11	**0.5**	0.2
Finance costs	11	**(1.9)**	(2.5)
Profit before income tax		**55.1**	53.0
Income tax expense	12	**(16.1)**	(16.2)
Profit for the year		**39.0**	36.8

* The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 27.

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

The accompanying notes on pages 91 to 126 form an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Note	2018 £m	2017* £m
Profit for the year		**39.0**	36.8
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefit obligations, net of taxes	22b	**7.4**	3.1
		7.4	3.1
Items that may be subsequently reclassified to profit or loss			
Net investment and cash flow hedges		**0.1**	(0.3)
Currency translation differences		**1.9**	(2.2)
		2.0	(2.5)
Other comprehensive profit for the year, net of taxes		**9.4**	0.6
Total comprehensive income for the year		**48.4**	37.4

* The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 27.

The accompanying notes on pages 91 to 126 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Note	Retained earnings £m	Translation reserve £m	Total £m
At 1 January 2017*		74.9	8.0	82.9
Profit for the year		36.8	—	36.8
Re-measurements of post-employment benefit obligations, net of taxes	22b	3.1	—	3.1
Net investment and cash flow hedges		—	(0.3)	(0.3)
Currency translation differences		—	(2.2)	(2.2)
At 31 December 2017*		**114.8**	**5.5**	**120.3**
At 1 January 2018*		**114.8**	**5.5**	**120.3**
Impact of change in accounting policy	16, 18, 27	**9.6**	**—**	**9.6**
Adjusted balance at 1 January 2018*		**124.4**	**5.5**	**129.9**
Profit for the year		**39.0**	**—**	**39.0**
Re-measurements of post-employment benefit obligations, net of taxes	22b	**7.4**	**—**	**7.4**
Net investment and cash flow hedges		**—**	**0.1**	**0.1**
Currency translation differences		**—**	**1.9**	**1.9**
At 31 December 2018		**170.8**	**7.5**	**178.3**

* The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 27.

The accompanying notes on pages 91 to 126 form an integral part of the consolidated financial statements.

Retained earnings

Retained earnings are used to record the changes in retained profit/(accumulated loss), actuarial gains/(losses) relating to retirement benefit obligations and the corresponding deferred tax.

Translation reserve

The translation reserve is used to record the foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and net investment and cash flow hedges.

Consolidated balance sheet

as at 31 December 2018

	Note	2018 £m	2017* £m
Assets			
Non-current assets			
Property, plant and equipment	13	**26.3**	26.1
Goodwill	14	**67.5**	65.3
Intangible assets	14	**28.0**	29.8
Deferred tax assets	16	**24.1**	26.8
Trade and other receivables	17	**7.1**	6.4
Contract costs	18	**14.9**	—
Total non-current assets		**167.9**	154.4
Current assets			
Inventories	19	**0.1**	0.2
Trade and other receivables	17	**126.2**	114.4
Derivative financial instruments	20	**0.1**	—
Current tax assets		**5.9**	—
Fixed-term deposits	21	**15.0**	10.0
Cash and cash equivalents	21	**71.8**	57.8
Total current assets		**219.1**	182.4
Total assets		**387.0**	336.8
Liabilities			
Non-current liabilities			
Deferred tax liabilities	16	**(10.7)**	(7.2)
Retirement benefit obligations	22	**(73.6)**	(91.4)
Provisions for liabilities and charges	23	**(2.3)**	(1.8)
Trade and other payables	24	**(9.4)**	(11.8)
Total non-current liabilities		**(96.0)**	(112.2)
Current liabilities			
Trade and other payables	24	**(107.3)**	(98.9)
Current tax payables		**(4.8)**	(5.1)
Provisions for liabilities and charges	23	**(0.6)**	(0.3)
Total current liabilities		**(112.7)**	(104.3)
Total liabilities		**(208.7)**	(216.5)
Net assets		**178.3**	120.3
Reserves			
Retained earnings		**170.8**	114.8
Translation reserve		**7.5**	5.5
Total reserves		**178.3**	120.3

* The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 27.

The accompanying notes on pages 91 to 126 form an integral part of the consolidated financial statements. The consolidated financial statements on pages 86 to 90 were approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:

Craig Smith FCCA
Group Finance Director
20 March 2019

Consolidated statement of cash flows

for the year ended 31 December 2018

	Note	2018 £m	2017* £m
Cash flows from operating activities			
Profit before income tax		**55.1**	53.0
Adjustments for:			
– Retirement benefit charges	22b	**3.2**	0.6
– Net capitalization of contract costs	18	**(2.0)**	—
– Depreciation of property, plant and equipment	7	**5.2**	4.7
– Amortization of intangible assets	7	**7.3**	7.1
– Loss on disposal of tangible assets	7	**0.1**	0.2
– Loss on disposal of intangible assets	7	**0.1**	—
– Impairment of intangible assets	7	**0.4**	—
– Loss allowance on trade receivables	7	**1.0**	0.9
– Bad debts written off to profit or loss directly	7	**—**	0.7
– Finance income	11	**(0.5)**	(0.2)
– Finance costs	11	**1.9**	2.5
Changes in working capital (excluding the exchange differences on consolidation):			
– Decrease/(increase) in inventories		**0.1**	(0.1)
– Increase in trade and other receivables		**(10.6)**	(19.8)
– Increase in derivative financial instrument asset		**(0.1)**	(0.1)
– Increase in trade and other payables		**1.9**	11.9
– Increase/(decrease) in provisions and other liabilities		**0.7**	(0.1)
Retirement benefit payments	22b	**(13.7)**	(13.5)
Cash generated from operations		**50.1**	47.8
Interest received		**0.5**	0.2
Income tax paid		**(20.6)**	(15.4)
Net cash generated from operating activities		**30.0**	32.6
Cash flows from investing activities			
Purchases of property, plant and equipment	13	**(5.3)**	(5.5)
Purchases of intangible assets	14	**(5.6)**	(5.3)
Purchase of fixed term deposits	21a	**(5.0)**	(10.0)
Acquisition of subsidiaries, net of cash acquired	15	**(0.6)**	(1.9)
Net cash used in investing activities		**(16.5)**	(22.7)
Net increase in cash and cash equivalents		**13.5**	9.9
Opening cash and cash equivalents		**57.8**	48.1
Exchange gain/(loss) on cash and cash equivalents		**0.5**	(0.2)
Closing cash and cash equivalents	21b	**71.8**	57.8

* The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 27.

The accompanying notes on pages 91 to 126 form an integral part of the consolidated financial statements.

1. Corporate information

The British Standards Institution is the ultimate parent company of the BSI Group and 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 consolidated financial statements were approved by the Board of Directors on 20 March 2019.

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 of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and with 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 financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated 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.

b. Changes in accounting policy and disclosures

i. New standards, amendments and interpretations adopted by the Group

The Group has applied IFRS 9, 'Financial Instruments' using the cumulative effect method and the application has no material impact on application, including the introduction of the expected credit loss model. Further details on the expected credit loss model are disclosed in Note 3(b).

The Group has also applied IFRS 15, 'Revenue from Contracts with Customers' using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately if they are different from those under IFRS 15 and the impact of these changes is disclosed in Note 27.

ii. New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these consolidated financial statements. With the exception of IFRS 16, none of these are expected to have a significant effect on the consolidated financial statements of the Group.

IFRS 16, 'Leases' specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. The standard replaces IAS 17, 'Leases' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019.

The Group has made an assessment of the impact of IFRS 16 based on the Group's leases in existence at 1 January 2019 and evaluated the available transition options under IFRS 16. Based on the evaluation conducted the Group has decided to apply the new accounting standard retrospectively with the accumulative effect of initial application recognized at the date of transition, with the following recognition exemptions and practical expedients expected to be applied:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- exclusion of low value leases – leases for which the underlying assets is below the Group's capitalization threshold; and
- exclusion of short-term leases – leases with lease term ending within twelve months of the date of initial application.

Our assessment has concluded that lease assets of £36.0m and corresponding lease obligations of £46.7m will be introduced to the Group's consolidated balance sheet, along with deferred tax assets of £2.3m. The net impact to the opening reserves at transition date is estimated to be £8.4m. Lease costs in the Group consolidated profit and loss account within the scope of IFRS 16 of £8.6m would be replaced by depreciation costs of £6.5m and finance costs of £1.9m. Additionally, the £6.7m principal element of lease payments will be moved out of operating activities on the Group consolidated statement of cash flows and recognized as a cash outflow under financing activities.

The average incremental borrowing rate in our assessment is 6.3%.

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

2. Principal accounting policies continued

c. 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 gives the Group power to govern the financial and operating policies.

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 the 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 are 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 the 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.

d. Segment reporting

On 1 May 2018, the Group implemented a new management structure, based on business streams as the principal management information provided internally to the Board, replacing geographical regions as reported previously. The Board constitutes the chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments.

e. 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 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

e. 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.

f. 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	5–50 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 2h).

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.

g. 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 the 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 are 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 three to five years, or the length of the 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;
- it can be demonstrated how the software product will generate probable future economic benefits;

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

2. Principal accounting policies continued
g. Intangible assets continued
ii. Computer software continued
- 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 employee costs incurred on software development.

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 three or five 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, intellectual property, customer order backlog, computer software and the value of sellers' non-compete agreements. 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 one to fifteen years.

iv. Internally generated product development costs
Product development costs, which include costs incurred on developing training courses, are capitalized only when specific criteria for capitalization, as set out in IAS 38, 'Intangible Assets' are met including consideration of probable future economic benefit. Capitalized product development costs are amortized over the asset's estimated useful life of four or five years on a straight-line basis.

h. 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 impairment are reviewed for possible reversal of the impairment at each reporting date).

i. Inventories
Inventories which comprise hard copy publications held for sale and training materials 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.

j. Financial assets
Classifications
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 twelve 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 assets with maturities greater than twelve 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', 'fixed term deposits' and 'cash and cash equivalents' in the balance sheet (Notes 17 and 21).

2. Principal accounting policies continued

j. Financial assets continued

Recognition and measurement

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.

k. Impairment of financial assets

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.

For trade and other receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables; see Note 3(b) for further details.

l. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is 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.

m. Derivative financial instruments and hedging activities

Derivatives are used to manage the Group's economic exposure to financial risks. The Group principally makes use of net investment hedges and forward currency contracts (cash flow hedge) to manage currency exposure risk on overseas operations and committed payments and does not hold or issue any other derivative financial instruments.

Derivatives are recognized initially at fair value. Subsequently, the gain or loss on re-measurement to fair value is recognized immediately to the income statement unless the derivative qualifies for hedge accounting treatment, in which case any gain or loss is taken to reserves.

The Group designates its derivatives as either:

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

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

iii. hedges of a net investment in a foreign operation (net investment 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 20. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the 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.

Cash flow hedge

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

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.

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).

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.

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

2. Principal accounting policies continued

m. Derivative financial instruments and hedging activities continued

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

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.

n. 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, 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 loss allowance.

o. Fixed-term deposits

Fixed-term deposits are liquid investments with original maturities of over three months.

p. 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.

q. 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. 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.

r. 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 the position 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 substantively 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

s. 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.

t. 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 twelve 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.

iii. 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 are 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.

u. 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 for quoted assets. The MetLife Annuity Policy asset is valued at an actuarial estimate using the assumptions shown in Note 22b. The pension scheme liabilities are measured using the projected unit actuarial method where estimated future cash flows 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 administration costs of operating the scheme. 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 using that same discount rate, 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.

v. Revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes value added tax, returns, rebates, discounts and amounts collected on behalf of third parties and after eliminating inter-company revenue within the Group. The Group recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

In the comparative period, revenue comprised 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 and was shown net of value added tax, returns, rebates and discounts and after eliminating inter-company revenue within the Group. The Group recognized revenue when the amount of revenue could be reliably measured; it was probable that future economic benefits would flow to the entity; and specific criteria had been met for each of the Group's activities as described below:

- Revenue from the sale of goods was recognized when the Group delivers a product to the customer.
- Revenue for rendering of services was recognized as the services were performed. Some consultancy projects are long-term, large-scale contracts and revenue was recognized on these according to their percentage of completion while revenue for membership, subscriptions and annual management fees was 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.
- Revenue from copyright and royalty income was recognized on an accrual basis. Fees for licence arrangements were spread over the life of the licence.

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

2. Principal accounting policies continued

w. Incremental costs of obtaining contracts

Incremental costs of obtaining contacts, such as sales commissions, are capitalized and amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates (i.e. over the estimated period of benefit). If the expected amortization period is one year or less, then the costs are expensed when incurred.

In the comparative period, all such costs were recognized as selling expenses when incurred.

x. 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 or 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 better assess trends in financial performance.

y. Borrowing costs

Borrowing costs are recognized as an expense when incurred.

z. 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.

aa. Other income

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.

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. The Group uses derivative financial instruments to hedge certain risk exposures.

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 – foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, the Euro, the Australian Dollar, the Chinese Renminbi and the Japanese Yen. Foreign exchange risk arises when future commercial transactions, recognized assets and liabilities and net investments in foreign operations are denominated in a currency that is not the entity's functional currency.

Management has set up a policy to require Group companies to manage their foreign exchange risk against their functional currency. Group companies are required to hedge foreign exchange risk exposure with Group Treasury. To manage their foreign exchange risk arising from known future commercial transactions and material recognized assets and liabilities, entities in the Group use forward contracts, transacted with Group Treasury. The Group buys or sells currencies forward so as to hedge exchange risk on relevant transactional activities.

3. Financial risk management continued

Financial risk factors continued

a. Market risk – foreign exchange 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 following table details the sensitivity of the Group's operating profit to movements in the major currencies in which it operates. This analysis considers the impact of the British Pound Sterling strengthening by 10% against the most significant foreign currencies used by operating units in the Group. The example movement of 10% has been selected in order to demonstrate that operating profit is not particularly sensitive to exchange rate fluctuations. The average movement in each currency during the previous three annual reporting periods is shown for comparison.

Currency	**2018 Year-end exchange rate**	**Average three-year exchange rate movement***	**Exchange movement modelled***	**Adverse impact on operating profit**
Australian Dollar	**1.79**	**0%**	**+10%**	**£0.1m**
Chinese Renminbi	**8.67**	**-3%**	**+10%**	**£0.1m**
Euro	**1.10**	**-2%**	**+10%**	**£0.1m**
Japanese Yen	**140**	**-4%**	**+10%**	**£0.2m**
US Dollar	**1.27**	**-5%**	**+10%**	**£1.7m**

* A positive exchange movement denotes Sterling strengthening against another currency.

A similar movement of 10% in the British Pound Sterling against all of the currencies in which the Group has exposure would result in an adverse operating profit impact of £3.2m.

b. Credit risk

Credit risk arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. The Group considers its exposure to credit risk at 31 December to be as follows:

	2018 £m	2017 £m
Cash and cash equivalents and fixed-term deposits (Note 21)	**86.8**	67.8
Trade receivables (Note 17)	**83.8**	75.9
Other receivables (Note 17)	**49.5**	44.9
Total credit risk	**220.1**	188.6

(i) Risk management

The Group's credit risk from banking institutions is considered to be low. The majority of funds are held in the UK with four relationship banks (HSBC, RBS, Barclays and Lloyds), 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.

Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. New customers are reviewed for creditworthiness with credit terms amended as appropriate. The majority of the Group's trade receivables are due for payment within 30 days. Concentrations of credit risk with respect to trade receivables are limited as the Group's customer base is large and unrelated, and, where appropriate, individual accounts receivable are provided against. Due to this, management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

Notes to the consolidated financial statements continued

for the year ended 31 December 2018

3. Financial risk management continued

Financial risk factors continued

b. Credit risk continued

(ii) Impairment of financial assets

The Group's trade receivables arising from all revenue are subject to the expected credit loss model. While cash and cash equivalents and other contract assets are also subject to the impairment requirements of IFRS 9, the identified impairment loss is immaterial. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of trade receivables over a period of 36 months to 31 December 2018 or 1 January 2018, respectively, and the corresponding historical credit losses experienced within these periods. The historical loss rates are adjusted to reflect current and forward-looking information on economic factors affecting the ability of the customers to settle the receivables. On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for trade receivables (Note 17):

At 31 December 2018	Current	More than 30 days past due	More than 90 days past due	More than 150 days past due	Total
Expected loss rate	**1.1%**	**1.6%**	**9%**	**29%**	**—**
Gross carrying amount – trade receivables (£m)	**63.3**	**12.3**	**4.5**	**7.0**	**87.1**
Loss allowance (£m)	**0.7**	**0.2**	**0.4**	**2.0**	**3.3**

At 1 January 2018	Current	More than 30 days past due	More than 90 days past due	More than 150 days past due	Total
Expected loss rate	1.8%	3.6%	11%	34%	—
Gross carrying amount – trade receivables (£m)	61.0	11.2	2.8	4.1	79.1
Loss allowance (£m)	1.1	0.4	0.3	1.4	3.2

The reconciliation of the closing loss allowance on trade receivables to the opening loss allowance is shown in Note 17.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage with the Company, and a failure to make contractual payments for a period of greater than 365 days past due. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade and other receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectable were written off by reducing the carrying amount directly. The trade and other receivables were assessed at the end of each reporting period to determine whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or Group of financial assets that could be reliably estimated.

The criteria that the Group used to determine that there was 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 became probable that the borrower would 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 was 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 could not yet be identified with the individual financial assets in the portfolio.

The amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognized in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could 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 was recognized in the consolidated income statement.

3. Financial risk management continued

Financial risk factors continued

c. Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group Finance. Group Finance and Group Treasury monitor 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 is 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. At the reporting date, the Group held no money market funds but held other liquid assets of £86.8m that are expected to readily generate cash inflows for managing liquidity risk.

Prudent liquidity risk management implies the maintenance of 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 facilities and cash and cash equivalents) on the basis of expected cash flow.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date 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. The Group did not hold any net-settled derivative financial liabilities at 31 December 2018 and 2017.

At 31 December 2018	**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	**75.4**	**1.6**	**0.9**	**6.9**

At 31 December 2017	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	69.5	2.4	1.7	7.2

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 2h. 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 income statement and 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 shown in the latest approved financial projections, together with future tax planning strategies.

The deferred tax assets recognized and not recognized are detailed in Note 16.

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

4. Critical accounting estimates and judgements continued

d. Retirement benefit obligations
The cost of defined benefit pension schemes 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 principal assumptions are detailed in Note 22b.

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

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

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Increase/(decrease) in present value of deficit at 31 December 2018		
	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	**0.25% p.a.**	**(13.6)**	**14.3**
Inflation rate*	**0.25% p.a.**	**2.4**	**(3.8)**
Salary escalation	**0.25%**	**0.6**	
Life expectancy	**Approximately 1 year**	**11.0**	

* This sensitivity allows for the impact on all inflation related assumptions (salary increases, deferred revaluation and pension increases, subject to relevant caps and floors).

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 set out in Note 23.

f. Incremental costs of obtaining contracts
Management judgement is required to determine the period of benefit from contracts, which is either the contract period or a calculated estimate of an average customer life based on historical data.

The incremental costs of obtaining contracts are disclosed in Note 18.

5. Segment information
On 1 May 2018, the Group implemented a new management structure based on business streams as the principal management information provided internally to the Board, replacing geographical regions as reported previously. The Board constitutes the chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments.

The business streams reported are:

- Knowledge – comprises Standards Development, Services and Information Solution business.
- Assurance Services – comprises Systems Certification, Product Certification and Training businesses.
- Regulatory Services – comprises Systems Certification and Product Certification into the Medical Devices industry.
- Professional Services – comprises two consultancy businesses, Environmental Health and Safety (EHS) and Cyber Security and Information Resilience (CSIR), and a Supply Chain Solutions business, which itself comprises consultancy and solutions divisions.

Governance and support functions comprise those functions responsible for directional oversight and policy framework creation and compliance for the Group as well as support functions to the business streams, mainly Commercial and Sector Management, Finance, Information Technology, Human Resources, Facilities and Legal. These are not allocated to business streams.

The performance of these business stream segments is measured at operating profit before exceptional costs and that treatment is reported here. This measure excludes the financing costs and actuarial adjustments of the UK defined benefit pension scheme, interest income tax expenses, and the effects of non-recurring expenditure from the operating segments.

The segment information provided to the Board for the reportable segments for the year ended 31 December 2018 is as follows:

2018	Knowledge £m	Assurance Services £m	Regulatory Services £m	Professional Services £m	Governance/ support functions £m	Total £m
Revenue	**65.2**	**277.4**	**92.7**	**76.6**	**—**	**511.9**
Operating profit before exceptional costs	**30.7**	**82.4**	**35.1**	**14.5**	**(100.9)**	**61.8**
Depreciation and amortization	**(1.7)**	**(1.5)**	**(0.4)**	**(0.4)**	**(8.5)**	**(12.5)**
Finance income	**—**	**—**	**—**	**—**	**0.5**	**0.5**
Finance costs	**—**	**—**	**—**	**—**	**(1.9)**	**(1.9)**
Income tax expense	**—**	**—**	**—**	**—**	**(16.1)**	**(16.1)**

5. Segment information continued

The segmental information for 2017 restated under the new organizational structure is as follows:

2017	Knowledge £m	Assurance Services £m	Regulatory Services £m	Professional Services £m	Governance/ support functions £m	Total £m
Revenue	60.7	264.2	73.5	74.6	—	473.0
Operating profit before exceptional costs	27.9	85.7	28.8	15.5	(98.4)	59.5
Depreciation and amortization	(1.4)	(1.1)	(0.3)	(0.4)	(8.6)	(11.8)
Finance income	—	—	—	—	0.2	0.2
Finance costs	—	—	—	—	(2.5)	(2.5)
Income tax expense	—	—	—	—	(16.2)	(16.2)

The chief operating decision-maker is provided with the Group balance sheet. No segmental balance sheet is reported as business streams as the primary segment do not manage balance sheet.

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

	2018 £m	2017 £m
Operating profit before exceptional costs	**61.8**	59.5
UK defined benefit plan – GMP adjustment (Note 7)	**(2.5)**	—
Acquisition costs (Note 7)	**(1.9)**	(3.3)
Property costs on refurbishment of head office (Note 7)	**—**	(0.2)
Restructuring and reorganization (Note 7)	**(0.9)**	(0.7)
Finance costs	**(1.9)**	(2.5)
Finance income	**0.5**	0.2
Profit before income tax	**55.1**	53.0

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 (2017: none).

6. Revenue

a. Nature of goods and services

The following is a description of the principal activities, separated by reportable segments, from which the Group generates its revenue. For more information about reportable segments see Note 5.

i. Knowledge

The Group's Knowledge business stream comprises Standards Development, Services and Information Solutions businesses.

The main sources of external revenue and basis for revenue recognition in this segment are set out below:

- Document revenue
  Document revenue originates from the sale of publications in hard and/or soft copy. Revenue is recognized when control of the goods passes to the customer.
- Subscription revenue
  Subscription revenue mainly derives from providing access to BSI's intellectual property and support services, during the subscription period, e.g. BSI's information services, access to published standards information, newsletters, advisory and support services, discounts on products and invitations to events and seminars.

  Where there is an ongoing performance obligation for BSI to maintain the intellectual property being accessed, e.g. to keep it up to date and maintain its value to the client, revenue is recognized over the duration of the subscription period. Where there are no further performance obligations for BSI after granting a licence, revenue is recognized at the time the licence is granted.
- Copyright and royalties
  Copyright revenue relates to the grant of a licence to use Knowledge intellectual property over the licence period e.g. to use all or part of a specific publication in a client document. Copyright revenues are recognized at the time the right to use licence is granted. Royalty revenue derives from the grant of licences allowing access to Knowledge intellectual property based on client usage. Revenue is recognized on the basis of usage or over the licence period depending on the contract.

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

6. Revenue continued
a. Nature of goods and services continued
i. Knowledge continued
- Consultancy
  Consultancy activity within Knowledge arises from contracts which vary in length, some of which are over a year in duration. Revenue is recognized on consultancy dependent on the nature of the contract. The contracts are a mixture of time and material-based contracts where revenue is recognized over time and contracts where revenue is recognized when the right to consideration is established based on delivery of the whole project or when project milestones have been achieved.

ii. Assurance Services
The Group's Assurance Services business stream comprises Systems Certification, Product Certification and Training businesses.

Assessment and certification services
These incorporate a number of more discrete services, the main constituents of which are:

- Application fee
  This covers administration and planning costs up to the date of the certification review and for advancing the client's application to the point of assessment. The fee is non-refundable and payable upon submission of the client's signed acceptance of the proposal, with a very specific starter pack being sent out to the client after committing to certification being the deliverable for this activity. Revenue is recognized when this activity is delivered.

- Annual management fee (AMF)
  The AMF grants access to a number of BSI's information websites together with a number of other assessment and certification services and information. BSI has an ongoing obligation to maintain the information and services being provided over the period of the AMF subscription. Revenue is recognized over the period of the subscription.

- Assessment and certification
  These contracts are time and materials based, generally delivered by a number of on-site visits by appropriately qualified staff, each over the course of a few days, and/or remote assessments by similarly qualified staff. Revenue is recognized over the period of delivery.

Product testing
- Kitemark licence fee
  The annual Kitemark licence once granted does not require any further obligation on BSI over the licence period. Revenue is recognized at the point the licence is granted.

- Provision of testing services
  This is to assess whether a product conforms to required specifications. Depending on the individual contract, revenue may be recognized on a percentage of work completed or across the duration of the testing period.

Training services
The revenue-generating activity comprises the delivery of both public and bespoke/in-house training courses and conferences utilizing both classroom and web/digital formats. Revenue is recognized on delivery of the training.

iii. Regulatory Services
The Group's Regulatory Services business stream comprises Systems Certification and Product Certification into the Medical Devices industry.

- Regulatory assessment and certification services and the discrete constituent services within these are as set out above under Assurance Services – assessment and certification services.

  In summary, revenue for the application fee is recognized once a client order has been processed and the starter pack issued; the revenue for the annual management fee is recognized over its annual period; and the revenue for assessment and certification services is recognized over the period of delivery of the services.

- CE marking – document and technical file reviews
  This comprises the audit review of document and technical files and delivering a conclusion as to whether the requirements of the relative directives are met. Revenue is recognized over the review period.

6. Revenue continued

a. Nature of goods and services continued

iv. Professional Services

The Group's Professional Services business stream comprises two consultancy businesses, Environmental Health and Safety (EHS) and Cyber Security and Information Resilience (CSIR), and a Supply Chain Solutions business, which itself comprises consultancy and solutions divisions.

- Environmental Health and Safety (EHS) and Cyber Security and Information Resilience (CSIR)
  Revenue is generally recognized for services such as consulting, penetration testing and reviewing client systems on a time and materials basis.

  Revenue is recognized on a contract-by-contract basis for services that involve the granting of software licences or the sale of software. Immediate recognition of the revenue is appropriate where BSI has no ongoing performance obligations following transfer of software or the granting of a licence. Revenue is spread over the duration of ongoing performance obligations arising under all other contracts.

Training revenue is recognized when the training is delivered.

- Supply chain services
  Supply chain services include grants of licences to access BSI maintained content, consulting and training services and the provision and installation of software. Revenue is recognized on all of the above over time in line with the service being delivered.
- Other consulting
  Revenue is recognized over time where the contract relates to a time and materials type of contract, or when project milestones are achieved, where the contract indicates that best represents the transfer of value and control to the client.

b. Disaggregation of revenue

In the following table, revenue is disaggregated by business segment (see Note 5), primary geographical market and timing of revenue recognition.

2018	**Knowledge £m**	**Assurance Services £m**	**Regulatory Services £m**	**Professional Services £m**	**Total £m**
Primary geographical markets					
EMEA	**—**	**121.3**	**27.2**	**13.9**	**162.4**
UK Knowledge	**65.0**	**—**	**—**	**—**	**65.0**
Americas	**—**	**50.2**	**54.6**	**59.6**	**164.4**
Asia Pacific	**0.2**	**105.9**	**10.9**	**3.1**	**120.1**
Revenue from external customers	**65.2**	**277.4**	**92.7**	**76.6**	**511.9**
Timing of revenue recognition					
At a point in time	**29.5**	**255.6**	**78.0**	**9.4**	**372.5**
Over time	**35.7**	**21.8**	**14.7**	**67.2**	**139.4**
	65.2	**277.4**	**92.7**	**76.6**	**511.9**

2017	Knowledge £m	Assurance Services £m	Regulatory Services £m	Professional Services £m	Total £m
Primary geographical markets					
EMEA	—	119.4	20.5	14.6	154.5
UK Knowledge	60.2	—	—	—	60.2
Americas	—	51.8	44.1	56.0	151.9
Asia Pacific	0.5	93.0	8.9	4.0	106.4
Revenue from external customers	60.7	264.2	73.5	74.6	473.0
Timing of revenue recognition					
At a point in time	27.7	242.2	62.5	9.0	341.4
Over time	33.0	22.0	11.0	65.6	131.6
	60.7	264.2	73.5	74.6	473.0

Notes to the consolidated financial statements continued

for the year ended 31 December 2018

6. Revenue continued

c. Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	31 December 2018 £m	1 January 2018* £m
Receivables, which are included in 'Trade and other receivables' (Note 17)	**87.1**	79.1
Contract assets, included in 'Contract costs' (Note 18) and 'Trade and other receivables' (Note 17)	**43.5**	41.1
Contract liabilities (Note 24)	**(31.9)**	(29.9)

* The Group recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance at 1 January 2018.

Significant changes in the contract assets and the contract liabilities balances during the period are as follows.

	2018	
	Contract assets £m	Contract liabilities £m
Revenue recognized that was included in the contract liability balance at the beginning of the period	**—**	**29.5**
Increases due to cash received, excluding amounts recognized as revenue during the period	**—**	**(31.4)**
Costs recognized that were included in the contract asset balance at the beginning of the period	**(3.2)**	**—**
Increases due to cash paid, excluding amounts recognized as costs during the period	**5.1**	**—**

7. Operating profit

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

	Note	2018 £m	2017 £m
Employee benefit expense	8	**247.5**	222.1
Depreciation of property, plant and equipment	13	**5.2**	4.7
Amortization	14	**7.3**	7.1
Impairment of intangible assets	14	**0.4**	—
Loss allowance on trade receivables	17	**1.0**	0.9
Operating lease payments for plant and machinery	10	**1.8**	2.8
Operating lease payments for land and buildings	10	**8.9**	9.1
Loss on disposal of tangible assets	13	**0.1**	0.2
Loss on disposal of intangible assets	14	**0.1**	—
Bad debts written off to profit or loss directly		**—**	0.7
Other exchange (gains)/losses		**(0.1)**	0.7
Auditors' remuneration:			
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements		**0.5**	0.4
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		**0.1**	0.2

Exceptional operating costs	2018 £m	2017 £m
Acquisition costs	**(1.9)**	(3.3)
Restructuring and reorganization	**(0.9)**	(0.7)
UK defined benefit plan – GMP adjustment	**(2.5)**	—
Property costs on refurbishment of head office	**—**	(0.2)
Total exceptional operating costs	**(5.3)**	(4.2)

7. Operating profit continued

Exceptional operating costs amounted to £5.3m (2017: £4.2m) and comprised:

- £1.9m of costs associated with the acquisitions of BSI Services and Solutions (NYC) Inc. (formerly Creative Environment Solutions Corporation), BSI Services and Solutions (West) Inc., BSI Services and Solutions East Inc. (Quantum Management Group, Inc. (QMG) and Atrium Environmental Health and Safety Services, LLC (Atrium)), BSI Cybersecurity and Information Resilience (Ireland) Limited, BSI Cybersecurity and Information Resilience (UK) Limited and the Neville-Clarke Group (Note 15);
- £0.9m of costs relating to a major programme of restructuring and reorganization in the Group; and
- £2.5m relating to an adjustment to pension costs to equalize the benefits between male and female members who have a Guaranteed Minimum Pension (GMP). GMP is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997 and where historically there was inequality of benefits between male and female members.

In 2017, operating exceptional costs comprised:

- £3.3m of costs associated with the acquisitions of BSI Services and Solutions (NYC) Inc. (formerly Creative Environment Solutions Corporation), BSI Services and Solutions (West) Inc., BSI Services and Solutions East Inc. (QMG and Atrium), BSI Cybersecurity and Information Resilience (Ireland) Limited, BSI Cybersecurity and Information Resilience (UK) Limited and the Neville-Clarke Group (Note 15);
- £0.7m relating to a major programme of restructuring and reorganization in the Group; and
- £0.2m of additional property costs relating to the refurbishment of the Group's head office in Chiswick.

The corporation tax impact of exceptional items is £1.0m credit (2017: £0.6m credit).

8. Employee benefit expense

	Note	2018 £m	2017 £m
Wages and salaries (including termination benefits of £1.8m (2017: £1.0m))		**207.8**	188.2
Social security costs		**22.8**	20.4
Long Term Incentive Plan (LTIP) expense		**1.3**	1.7
Other pension costs – defined contribution plans	22a	**13.1**	11.8
UK defined benefit plan – GMP adjustment	7	**2.5**	—
Employee benefit expense charged in arriving at operating profit	7	**247.5**	222.1
Net pension finance costs	11, 22b	**1.9**	2.5
Total employee benefit expense charged in arriving at profit before income tax		**249.4**	224.6

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

	2018 Number	2017 Number
Production, assessment, training and laboratory	**2,687**	2,404
Sales and distribution	**918**	810
Administration	**711**	632
Total employees	**4,316**	3,846
External resource	**468**	487
Total headcount	**4,784**	4,333

External resource comprises assessors, tutors and consultants operating under a services agreement to provide the capacity, geographic presence or specialist knowledge locally to deliver BSI's services to its clients.

9. Directors' emoluments

The emoluments of the Executive and Non-Executive Board members during the year are disclosed in the Directors' remuneration report on pages 68 to 77.

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 ten years from November 2015, with a rent review in November 2020 based on the Retail Prices 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 fifteen years from July 2011, with regular rent reviews based on open market rent.

The other UK and overseas leases are typically for ten 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2018

10. Operating leases continued

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

	2018			2017		
	Land and buildings £m	**Other £m**	**Total £m**	Land and buildings £m	Other £m	Total £m
No later than 1 year	**8.9**	**1.7**	**10.6**	8.3	1.8	10.1
Later than 1 year and no later than 5 years	**23.3**	**2.7**	**26.0**	24.1	1.8	25.9
Later than 5 years	**7.2**	**—**	**7.2**	12.5	—	12.5
Minimum lease payments	**39.4**	**4.4**	**43.8**	44.9	3.6	48.5

11. Finance income and costs

	2018 £m	2017 £m
Bank interest receivable on cash, short and fixed-term deposits	**0.5**	0.2
Finance income	**0.5**	0.2
Net interest on the net defined benefit pension obligation (Note 8 and Note 22b)	**(1.9)**	(2.5)
Finance costs	**(1.9)**	(2.5)

12. Income tax expense

	2018 £m	2017 £m
Current tax		
UK tax current year	**4.1**	5.2
UK tax prior years	**—**	0.4
Foreign tax current year	**12.0**	12.1
Foreign tax prior years	**0.5**	0.7
Total current tax	**16.6**	18.4
Deferred tax (Note 16)		
Origination and reversal of temporary differences	**(0.1)**	(1.7)
Prior year deferred tax adjustments	**(0.4)**	0.3
Impact of change in US tax rate	**—**	(0.8)
Total deferred tax	**(0.5)**	(2.2)
Total income tax expense	**16.1**	16.2

The tax on the Group's profit before tax is higher (2017: higher) than the theoretical amount that would arise using the weighted average UK statutory tax rate of 19.0% (2017: 19.25%) applicable to profits of the consolidated entities as follows:

	2018 £m	2017 £m
Profit before income tax	**55.1**	53.0
Tax calculated at the weighted average UK statutory tax rate of 19.0% (2017: 19.25%)	**10.5**	10.2
Effects of:		
– Expenses not deductible for tax purposes	**2.6**	0.9
– Tax losses for which no deferred income tax asset was recognized	**0.4**	0.1
– Income not subject to tax	**—**	(0.1)
– Higher tax rates on overseas earnings	**2.5**	4.5
– Impact of change in US tax rates	**—**	(0.8)
Adjustments to tax charge in respect of previous periods:		
– UK	**(0.4)**	0.2
– Foreign	**0.5**	1.2
Total income tax expense	**16.1**	16.2

12. Income tax expense continued

The Group effective tax rate (ETR) on profits before tax and goodwill impairment for the year is 29.2% (2017: 30.6%). The ETR at 29.2% comprises a current year tax charge of 29.0% and a net prior year tax charge of 0.2% arising from net under-provided UK and foreign tax.

The ETR for the Group's underlying business operations for the current year is 27.9% (2017: 28.0%) after removing the tax impact of non-operational exceptional, finance costs and items related to prior years.

The ETR at 29.2% is further reconciled from the UK statutory tax rate of 19% by additional higher overseas Group taxes of 4.6%, prior years' tax charge of 0.2% and the net ETR increase of 5.4% for Group tax permanent and temporary differences and tax losses not recognized.

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 2017	11.4	10.8	1.7	26.3	50.2
Additions	—	—	4.0	1.5	5.5
Additions: acquisition of subsidiaries	—	—	—	0.1	0.1
Disposals	(0.3)	(2.4)	(0.1)	(2.4)	(5.2)
Reclassifications	0.2	2.2	(4.5)	2.1	—
Exchange differences	—	—	—	(0.5)	(0.5)
At 31 December 2017	**11.3**	**10.6**	**1.1**	**27.1**	**50.1**
Additions	**—**	**—**	**2.8**	**2.5**	**5.3**
Disposals	**—**	**(0.2)**	**—**	**(1.2)**	**(1.4)**
Reclassifications	**0.5**	**0.2**	**(3.0)**	**2.3**	**—**
Exchange differences	**—**	**—**	**—**	**0.6**	**0.6**
At 31 December 2018	**11.8**	**10.6**	**0.9**	**31.3**	**54.6**
Accumulated depreciation and impairment					
At 1 January 2017	(2.8)	(4.6)	—	(17.0)	(24.4)
Charge for the year (Note 7)	(0.4)	(0.8)	—	(3.5)	(4.7)
Disposals	0.3	2.4	—	2.3	5.0
Exchange differences	—	—	—	0.1	0.1
At 31 December 2017	**(2.9)**	**(3.0)**	**—**	**(18.1)**	**(24.0)**
Charge for the year (Note 7)	**(0.4)**	**(1.0)**	**—**	**(3.8)**	**(5.2)**
Disposals	**—**	**0.2**	**—**	**1.1**	**1.3**
Exchange differences	**—**	**—**	**—**	**(0.4)**	**(0.4)**
At 31 December 2018	**(3.3)**	**(3.8)**	**—**	**(21.2)**	**(28.3)**
Net book value at 31 December 2018	**8.5**	**6.8**	**0.9**	**10.1**	**26.3**
Net book value at 31 December 2017	8.4	7.6	1.1	9.0	26.1

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 (2017: £0.5m) has been contracted for but not provided for in the financial statements.

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14. Intangible assets

	Goodwill £m	Computer software: Externally acquired £m	Computer software: Internally generated £m	Customer relationships and other acquired intangible assets £m	Internally generated product development costs £m	Total £m
Cost						
At 1 January 2017	72.0	17.2	15.7	29.6	2.7	137.2
Additions	—	3.2	1.3	—	0.8	5.3
Additions: acquisition of subsidiaries	1.7	—	—	1.2	—	2.9
Disposals	—	(3.0)	(0.8)	—	—	(3.8)
Reclassification	—	(0.2)	0.2	—	—	—
Exchange differences	(2.0)	—	(0.2)	(1.1)	—	(3.3)
At 31 December 2017	**71.7**	**17.2**	**16.2**	**29.7**	**3.5**	**138.3**
Additions	**—**	**4.6**	**0.3**	**—**	**0.7**	**5.6**
Additions: acquisition of a subsidiary (Note 15)	**0.9**	**—**	**—**	**—**	**—**	**0.9**
Disposals	**—**	**(0.5)**	**(0.1)**	**—**	**(0.1)**	**(0.7)**
Reclassifications	**—**	**0.2**	**(0.2)**	**—**	**—**	**—**
Exchange differences	**1.3**	**—**	**0.1**	**0.7**	**—**	**2.1**
At 31 December 2018	**73.9**	**21.5**	**16.3**	**30.4**	**4.1**	**146.2**
Accumulated amortization and impairment						
At 1 January 2017	(6.4)	(13.1)	(9.1)	(9.5)	(1.8)	(39.9)
Charge for the year (Note 7)	—	(1.8)	(2.7)	(2.2)	(0.4)	(7.1)
Disposals	—	3.0	0.8	—	—	3.8
Exchange differences	—	—	—	—	—	—
At 31 December 2017	**(6.4)**	**(11.9)**	**(11.0)**	**(11.7)**	**(2.2)**	**(43.2)**
Charge for the year (Note 7)	**—**	**(1.9)**	**(2.5)**	**(2.4)**	**(0.5)**	**(7.3)**
Disposals	**—**	**0.5**	**—**	**—**	**0.1**	**0.6**
Impairment loss (Note 7)	**—**	**(0.4)**	**—**	**—**	**—**	**(0.4)**
Exchange differences	**—**	**—**	**(0.1)**	**(0.3)**	**—**	**(0.4)**
At 31 December 2018	**(6.4)**	**(13.7)**	**(13.6)**	**(14.4)**	**(2.6)**	**(50.7)**
Net book value at 31 December 2018	**67.5**	**7.8**	**2.7**	**16.0**	**1.5**	**95.5**
Net book value at 31 December 2017	65.3	5.3	5.2	18.0	1.3	95.1

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

Amortization charges are included within cost of sales or administrative expenses in the income statement, as appropriate.

Capital commitments in respect of computer software
£2.0m (2017: £0.4m) capital expenditure has been contracted for but not provided for in the financial statements.

Impairment tests for goodwill
Goodwill is allocated to the Group's CGUs identified according to geographical area operating segment.

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

	EMEA £m	Americas £m	Asia Pacific £m	Knowledge £m	Total £m
2018	**19.6**	**27.8**	**14.8**	**5.3**	**67.5**
2017	18.5	26.5	15.0	5.3	65.3

14. Intangible assets continued

Impairment tests for goodwill continued

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections covering three years, based on financial budgets approved by the Board and strategic plans, unless more specific and recent projections exist. Cash flows beyond the three-year period are extrapolated using average growth rates of the past ten 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 -0.32% and +7.94% (2017: -0.55% and +8.23%). Applying a zero growth rate on the cash flows beyond the three-year period would not result in impairment on the Group's CGUs (2017: £1.8m impairment).

Discount rates applied to the cash flow forecasts are pre-tax and derived using the capital asset pricing model and vary from 8.3% to 19.9% (2017: 7.4% to 14.2%) across the CGUs. The pre-tax discount rates would need to increase by more than 5.1% (2017: 2.4%) before any of the Group's CGUs suffer any impairment. The pre-tax discount rates would need to increase by 5.2% (2017: 2.5%) before any of the Group's CGUs incurred an impairment of £0.1m.

15. Business combinations

i. Acquisition of AirCert GmbH ('AirCert')

On 2 November 2018, the Group acquired 100% of the share capital of AirCert GmbH, a specialist Aerospace certification company based in Munich, Germany, for a cash consideration of EUR 1.1m (£1.0m).

The acquisition of AirCert allows BSI to join the coveted group of Aerospace certification bodies that are accredited to DAkkS, the German accreditation body, enabling the Group to accelerate the development of its Assurance Services.

The following table summarizes the consideration paid for the acquisition and the fair value of assets acquired and liabilities assumed at the acquisition dates:

	AirCert £m
Total consideration transferred	**1.0**
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	**0.1**
Trade and other receivables	**0.1**
Trade and other payables	**(0.1)**
Total identifiable net assets	**0.1**
Goodwill (included in intangibles) (Note 14)	**0.9**
Total	**1.0**

Goodwill of £0.9m arising from the acquisition is attributable to future synergies expected from combining the operations of the Group and of the new acquisition, together with the fair value of the assembled workforce. The goodwill recognized is not expected to be deductible for income tax purposes.

The following table summarizes the revenue and operating profit before exceptional costs that would have been included in the consolidated income statement, had AirCert been consolidated from 1 January 2018.

	AirCert £m
Revenue	**0.6**
Operating profit before exceptional costs	**0.1**

ii. Acquisition of Neville-Clarke Group ('Neville Clarke')

During the year, £0.2m was received in respect of the acquisition of Neville Clarke in 2017. The adjustment to the purchase price related to a partial settlement of the true-up of working capital.

iii. Acquisition of Quantum Management Group, Inc. ('QMG')

During the year, £0.1m was received in respect of the acquisition of QMG in 2016. The adjustment to the purchase price related to the true-up of working capital.

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for the year ended 31 December 2018

16. Deferred tax

	2018 £m	2017 £m
Deferred tax assets:		
– To be recovered after more than twelve months	**17.8**	21.2
– To be recovered within twelve months	**6.3**	5.6
Total deferred tax assets	**24.1**	26.8
Deferred tax liabilities:		
– To be incurred after more than twelve months	**(8.5)**	(6.1)
– To be incurred within twelve months	**(2.2)**	(1.1)
Total deferred tax liabilities	**(10.7)**	(7.2)
Net deferred tax assets	**13.4**	19.6

Movement on the net deferred tax account

	2018 £m	2017 £m
At 1 January	**19.6**	21.0
Impact of change in accounting policy (Note 27)	**(3.0)**	—
Adjusted balance at 1 January	**16.6**	21.0
Acquisitions of subsidiaries	**—**	(0.1)
Income statement tax credited (Note 12)	**0.5**	2.2
Tax charged to equity relating to retirement benefit obligations	**(3.5)**	(3.0)
Exchange differences	**(0.2)**	(0.5)
At 31 December	**13.4**	19.6

Gross movement on the deferred tax account

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

Deferred tax liabilities	Capitalized contract costs £m	Other temporary differences £m	Total £m
At 1 January 2017	—	(10.6)	(10.6)
Reclassification*	—	(1.9)	(1.9)
Acquisition of subsidiaries	—	(0.2)	(0.2)
Credited to the income statement	—	5.2	5.2
Exchange differences	—	0.3	0.3
At 31 December 2017	—	(7.2)	(7.2)
At 1 January 2018	**—**	**(7.2)**	**(7.2)**
Impact of change in accounting policy (Note 27)	**(3.0)**	**—**	**(3.0)**
Adjusted balance at 1 January 2018	**(3.0)**	**(7.2)**	**(10.2)**
(Charged)/credited to the income statement	**(0.5)**	**0.8**	**0.3**
Exchange differences	**(0.1)**	**(0.7)**	**(0.8)**
At 31 December 2018	**(3.6)**	**(7.1)**	**(10.7)**

16. Deferred tax continued

Gross movement on the deferred tax account continued

Deferred tax assets	Accelerated capital allowances £m	Pension £m	Losses £m	Other temporary differences £m	Total £m
At 1 January 2017	1.0	19.0	4.2	7.4	31.6
Reclassification*	1.3	—	—	0.6	1.9
Acquisition of subsidiaries	—	—	—	0.1	0.1
Charged to the income statement	—	—	(2.3)	(0.7)	(3.0)
Charged directly to reserves	—	(3.0)	—	—	(3.0)
Exchange differences	—	—	(0.4)	(0.4)	(0.8)
At 31 December 2017	**2.3**	**16.0**	**1.5**	**7.0**	**26.8**
Credited/(charged) to the income statement	**0.5**	**—**	**(0.8)**	**0.5**	**0.2**
Charged directly to reserves	**—**	**(3.5)**	**—**	**—**	**(3.5)**
Exchange differences	**—**	**—**	**0.1**	**0.5**	**0.6**
At 31 December 2018	**2.8**	**12.5**	**0.8**	**8.0**	**24.1**

* The deferred tax reclassification comprises two elements: a switch between the opening deferred tax assets and liabilities balances of £1.9m; and identifying separately the accelerated capital allowances of £1.3m included previously in the other temporary differences disclosure.

The deferred tax charged directly to reserves during the year was £3.5m (2017: charge of £3.0m) which related to the retirement benefit obligation.

The carrying amount of deferred tax assets is recognized to the extent that the realization of the related tax benefit through future taxable profits is probable.

The Group did not recognize deferred tax assets of £0.4m (2017: £0.1m) in respect of current year losses amounting to £1.5m (2017: £0.5m) that can be carried forward against future taxable income.

17. Trade and other receivables

	2018 £m	2017 £m
Trade receivables	**87.1**	79.1
Less: loss allowance	**(3.3)**	(3.2)
Trade receivables – net	**83.8**	75.9
Other receivables	**13.2**	8.9
Prepayments	**7.7**	7.5
Accrued income	**28.6**	28.5
Total trade and other receivables	**133.3**	120.8
Less non-current portion:		
– Other receivables	**(7.1)**	(6.4)
Current portion of trade and other receivables	**126.2**	114.4

Trade and other receivables are non-interest bearing and are generally on 30–60 day (2017: 30–60 day) terms.

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

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17. Trade and other receivables continued

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

	2018 £m	2017 £m
British Pounds Sterling	**35.1**	33.2
US Dollars	**44.7**	43.6
Euros	**18.5**	12.1
Chinese Renminbi	**4.3**	4.8
Japanese Yen	**5.2**	3.8
Australian Dollars	**1.3**	3.7
Other currencies	**24.2**	19.6
Total trade and other receivables	**133.3**	120.8

Movements on the Group loss allowance on trade receivables are as follows:

	2018 £m	2017 £m
At 1 January	**3.2**	3.1
Increase in loss allowance recognized in profit or loss during the year	**1.1**	1.1
Receivables written off during the year as uncollectable	**(1.0)**	(0.7)
Unused amounts reversed	**(0.1)**	(0.2)
Exchange differences	**0.1**	(0.1)
At 31 December	**3.3**	3.2

The creation and release of the loss allowance on receivables have been included within administrative expenses in the income statement. Receivables and their corresponding loss allowance 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.

18. Contract costs

Incremental costs of obtaining contacts, such as sales commissions, are capitalized and amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates (i.e. over the estimated period of benefit). Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the assets that the Group otherwise would have recognized is one year or less.

Capitalized incremental costs are amortized over the period the related revenues are recognized.

Movements on the contract costs balance are as follows:

	Total £m
At 31 December 2017	**–**
At 1 January 2018	**–**
Impact of change in accounting policy (Note 27)	**12.6**
Adjusted balance at 1 January 2018	**12.6**
Capitalization during the year	**6.0**
Amortization during the year	**(4.0)**
Exchange differences	**0.3**
At 31 December 2018	**14.9**

In the comparative period, such incremental costs were recognized as selling expenses when incurred.

19. Inventories

	2018 £m	2017 £m
Finished goods and goods for resale	—	0.1
Consumables	0.1	0.1
Total inventories	**0.1**	**0.2**

20. Derivative financial instruments

	2018 £m	2017 £m
Current assets		
Forward foreign exchange contracts	0.1	—

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2018 were £23.1m (2017: £22.0m).

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 (2017: 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 in the balance sheet.

21. Fixed-term deposits and cash and cash equivalents

a. Fixed-term deposits

The Group has invested £15.0m of cash in a fixed-term bank deposit (2017: £10.0m), subject to a notice period of 95 days. This is classified within the consolidated statement of cash flows under investing activities as it does not fall within the definition of cash and cash equivalents. In the consolidated balance sheet this fixed-term deposit is shown within current assets.

b. Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	70.1	55.5
Short-term deposits	1.7	2.3
Total cash and cash equivalents	**71.8**	**57.8**

No bank overdraft facilities were in use at 31 December 2018 (2017: £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 was £71.8m (2017: £57.8m). 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 cash equivalents and fixed-term deposits were:

	2018				2017			
	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	—	48.5	12.9	61.4	—	27.5	11.7	39.2
US Dollars	—	—	4.2	4.2	2.4	0.4	4.5	7.3
Euros	0.3	0.7	1.5	2.5	0.1	0.4	1.8	2.3
Chinese Renminbi	—	5.1	—	5.1	—	8.6	—	8.6
Japanese Yen	0.3	—	0.1	0.4	0.4	—	0.1	0.5
Australian Dollars	1.8	1.7	—	3.5	2.3	1.2	—	3.5
Other currencies	0.9	1.4	7.4	9.7	0.5	1.2	4.7	6.4
Total	**3.3**	**57.4**	**26.1**	**86.8**	**5.7**	**39.3**	**22.8**	**67.8**

Notes to the consolidated financial statements continued

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22. Retirement benefit obligations

The Group operates the following retirement benefit schemes:

a. Defined contribution schemes

The Group offers a group personal pension plan to all new UK employees. The associated costs for the year were £8.9m (2017: £7.7m).

In addition, a number of other money purchase schemes are operated in overseas companies, with costs for the year totalling £4.2m (2017: £4.1m).

b. Defined benefit schemes

i. UK defined benefit plan

The Group operates a defined benefit plan in the UK (the 'Plan') which provides benefits linked to salary on retirement or earlier date of leaving service. The Plan closed to new entrants and future accrual as at 30 April 2010, although the link to final salary remains whilst members are still employed by the Company. The Plan operates under the regulatory framework of the Pensions Act 2004. The Trustees have the primary responsibility for governance of the Plan. The Trustees comprise representatives of the Company, an independent Trustee and members of the Plan. Benefit payments are from Trustee-administered funds and Plan assets are held in a Trust which is governed by UK regulation.

The risks to which the Plan exposes the Group are as follows:

- Asset volatility – if Plan assets do not move in line with Plan liabilities then a deficit may arise. The Trustees hold a buy-in policy which broadly immunizes around £89m (2017: £95m) of the liabilities to changes in market conditions. The Trustees monitor the appropriateness of the Plan's investment strategy, in consultation with the Company, on an ongoing basis.
- Inflation risk – a significant proportion of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation).
- Longevity – increases in life expectancy will increase the period over which the benefits are expected to be payable, which increases the value placed on the Plan's liabilities.

A valuation of the UK defined benefit plan was carried out under the Statutory Funding Objective as at 31 March 2016. This revealed an ongoing funding level of 80% (31 March 2013: 74%). The Group subsequently agreed a schedule of contributions with the Trustees which was put in place from 1 April 2016. It requires contributions from the Group to improve the funding level of the Plan and to cover the expenses of running the Plan. The Group agreed to pay additional contributions of £94.5m over the period from 1 April 2016 to 31 March 2023. Contributions in respect of future service benefits ceased on 30 April 2010.

The Group paid a total of £13.5m in additional contributions to the Plan during 2018 (2017: £13.5m).

Balance sheet

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

	2018 £m	2017 £m
Present value of defined benefit obligations	**410.8**	440.3
Fair value of plan assets	**(339.1)**	(350.3)
Net liability in the balance sheet	**71.7**	90.0

22. Retirement benefit obligations continued

b. Defined benefit schemes continued

i. UK defined benefit plan continued

Balance sheet continued

The movement in the defined benefit obligation over the year was as follows:

	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 January 2017	439.3	(335.2)	104.1
Amounts charged/(credited) to the income statement:			
Administration expenses	—	0.6	0.6
Interest expense/(income) (Note 8, Note 11)	11.2	(8.7)	2.5
	11.2	(8.1)	3.1
Re-measurements:			
– Return on plan assets, excluding amounts included in interest expense	—	(6.9)	(6.9)
– Gain from change in demographic assumptions	(6.8)	—	(6.8)
– Loss from change in financial assumptions	10.0	—	10.0
	3.2	(6.9)	(3.7)
Contributions:			
– Employers	—	(13.5)	(13.5)
Payments from plans:			
– Disbursements	(13.4)	13.4	—
	(13.4)	(0.1)	(13.5)
At 31 December 2017	**440.3**	**(350.3)**	**90.0**
Amounts charged/(credited) to the income statement:			
Administration expenses	**—**	**0.5**	**0.5**
Service cost – GMP adjustment (Note 7)	**2.5**	**—**	**2.5**
Interest expense/(income) (Note 8, Note 11)	**10.6**	**(8.7)**	**1.9**
	13.1	**(8.2)**	**4.9**
Re-measurements:			
– Loss on plan assets, excluding amounts included in interest expense	**—**	**18.6**	**18.6**
– Gain from change in demographic assumptions	**(3.8)**	**—**	**(3.8)**
– Gain from change in financial assumptions	**(25.0)**	**—**	**(25.0)**
– Experience losses	**0.5**	**—**	**0.5**
	(28.3)	**18.6**	**(9.7)**
Contributions:			
– Employers	**—**	**(13.5)**	**(13.5)**
Payments from plans:			
– Disbursements	**(14.3)**	**14.3**	**—**
	(14.3)	**0.8**	**(13.5)**
At 31 December 2018	**410.8**	**(339.1)**	**71.7**

Notes to the consolidated financial statements continued

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22. Retirement benefit obligations continued

b. Defined benefit schemes continued

i. UK defined benefit plan continued

Assumptions

The principal actuarial assumptions used were as follows:

	2018 % p.a.	2017 % p.a.
Rate of increase in salaries	**4.30**	4.20
Rate of revaluation in deferment	**2.30**	2.20
Pension increase rate:		
– RPI (min. 3%, max. 5%)	**3.60**	3.65
– CPI (min. 3%, max. 5%)	**3.30**	3.20
Discount rate	**2.85**	2.45
Inflation assumption – RPI	**3.30**	3.20
Inflation assumption – CPI	**2.30**	2.20

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics. Life expectancy at age 65 for a member currently aged 45 is 24.6 (2017: 25.2) years (men) or 26.2 (2017: 26.2) years (women). Life expectancy for a member currently aged 65 is 23.2 (2017: 23.5) years (men) or 24.6 (2017: 24.7) years (women).

A sensitivity analysis showing the impact on the present value of the deficit of changes in the principal assumptions above is shown in Note 4(d).

Plan assets are comprised as follows:

	Value at 31 December 2018		Value at 31 December 2017	
	£m		£m	
Schroders Diversified Growth Fund	**90.4**	**27%**	90.6	26%
Standard Life Global Absolute Return Strategies Fund	**64.5**	**19%**	63.7	19%
M&G Credit Fund	**20.0**	**6%**	20.3	6%
Schroders Liability-Driven Investments	**38.3**	**11%**	–	–
Schroders Corporate Bond Fund	**10.4**	**3%**	50.7	14%
M&G European Loan Fund	**–**	**–**	8.4	2%
Alcentra Credit Fund	**20.8**	**6%**	17.0	5%
Cash	**5.3**	**2%**	4.2	1%
MetLife Annuity Policy	**89.4**	**26%**	95.4	27%
Total fair value of plan assets	**339.1**	**100%**	350.3	100%

Expected contributions to retirement benefit plans for the year ending 31 December 2019 are £13.5m (2018: £13.5m).

The weighted average duration of the defined benefit obligation is sixteen years (2017: eighteen years).

ii. Other defined benefit schemes

The Group operates defined benefit pension schemes in Taiwan, Germany, Indonesia and the Philippines which provide benefits based on final pensionable salary and service. The net liability recognized in the balance sheet at 31 December 2018 is £1.9m (2017: £1.4m). £0.2m (2017: £nil) was charged to the income statement in relation to these schemes and the Group made contributions of £0.2m (2017: £nil).

iii. Re-measurements of post-employment benefit obligations recognized in the consolidated statement of comprehensive income

	2018 £m	2017 £m
Gain/(loss) on re-measurements of defined benefit plan net liabilities		
– UK	**9.7**	3.7
– Overseas	**(0.5)**	0.1
	9.2	3.8
Tax on re-measurements of defined benefit plan net liabilities		
– Deferred tax charge (Note 16)	**(3.5)**	(3.0)
– Current tax credit	**1.7**	2.3
Re-measurements of post-employment benefit obligations, net of taxes	**7.4**	3.1

23. Provisions for liabilities and charges

	Property provisions £m	Other provisions £m	Total £m
At 1 January 2017	1.1	1.2	2.3
Charged to the income statement	0.1	0.2	0.3
Unused amount reversed during the period	—	(0.1)	(0.1)
Amount utilized in the period	—	(0.3)	(0.3)
Exchange differences	—	(0.1)	(0.1)
At 31 December 2017	**1.2**	**0.9**	**2.1**
Charged to the income statement	**0.2**	**0.5**	**0.7**
Amount utilized in the period	**—**	**(0.1)**	**(0.1)**
Exchange differences	**—**	**0.2**	**0.2**
At 31 December 2018	**1.4**	**1.5**	**2.9**

The property provisions are held against dilapidations. 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 relate to amounts required to cover end-of-service indemnity pursuant to the United Arab Emirates Federal Labour Law and other employment related provisions.

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

Analysis of total provisions:

	2018 £m	2017 £m
Non-current	**2.3**	1.8
Current	**0.6**	0.3
Total provisions for liabilities and charges	**2.9**	2.1

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.

24. Trade and other payables

	2018 £m	2017 £m
Trade payables	**9.8**	10.9
VAT and sales taxes	**4.2**	4.0
Other taxes and social security	**5.3**	4.5
Other payables	**17.1**	15.2
Accruals	**48.4**	46.2
Deferred income	**31.9**	29.9
Total trade and other payables	**116.7**	110.7
Less non-current portion:		
– Trade and other payables	**(9.4)**	(11.1)
– Deferred income	**—**	(0.5)
– Accruals	**—**	(0.2)
Current portion of trade and other payables	**107.3**	98.9

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

24. Trade and other payables continued

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

	2018 £m	2017 £m
British Pounds Sterling	**57.0**	52.9
US Dollars	**25.8**	25.7
Euros	**7.4**	7.3
Chinese Renminbi	**5.9**	6.4
Japanese Yen	**3.5**	3.5
Australian Dollars	**3.0**	2.7
Other currencies	**14.1**	12.2
Total trade and other payables	**116.7**	110.7

Trade payables are non-interest bearing and are generally on 30–60 day (2017: 30–60 day) terms. Other payables are non-interest bearing and are generally on 30–90 day (2017: 30–90 day) terms.

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

25. Financial assets

a. Financial assets by category

At 31 December 2018	Cash flow hedges at fair value £m	Other financial assets £m
Assets as per balance sheet		
Trade and other receivables excluding prepayments and accrued income (Note 17)	–	**97.0**
Derivative financial instruments (Note 20)	**0.1**	–
Fixed-term deposits (Note 21a)	–	**15.0**
Cash and cash equivalents (Note 21b)	–	**71.8**
Total	**0.1**	**183.8**

At 31 December 2018	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet	
Trade and other payables excluding non-financial liabilities (Note 24)	**84.8**
Total	**84.8**

At 31 December 2017	Other financial assets £m
Assets as per balance sheet	
Trade and other receivables excluding prepayments and accrued income (Note 17)	84.8
Fixed-term deposits (Note 21a)	10.0
Cash and cash equivalents (Note 21b)	57.8
Total	152.6

At 31 December 2017	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet	
Trade and other payables excluding non-financial liabilities (Note 24)	80.8
Total	80.8

25. Financial assets continued

b. Credit quality of financial assets

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

26. 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 of 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 light of local legal and taxation advice, experience to date and the 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 its 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 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.

27. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has applied IFRS 9, 'Financial Instruments' using the cumulative effect method and the application has no material impact on application, including the introduction of the expected credit loss model.

The Group has also applied IFRS 15, 'Revenue from Contract with Customers' using the cumulative effect method, recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of the significant changes and quantitative impact of the changes are set out below.

a. Reseller agreements

Previously the Group recognized revenue on reseller agreements at gross values as though the Group was acting as a principal. The adoption of IFRS 15 has had an impact on some of the Group's reseller agreements where a change in the criteria to determine whether the Group is acting as principal or agent has modified the assessment from that of a principal to an agent. As a result, only the margin rather than gross revenue from these reseller contracts is now recognized as revenue.

b. Incremental costs of obtaining contracts

The Group previously recognized incremental costs of obtaining contracts, such as sales commission, as selling expenses when they were incurred. Under IFRS 15, the Group capitalizes costs of obtaining a contract when they are incremental and amortizes them on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates (i.e. over the estimated period of benefit). If the expected amortization period is one year or less, then the costs are expensed when incurred.

Notes to the consolidated financial statements continued

for the year ended 31 December 2018

27. Changes in accounting policies continued

b. Incremental costs of obtaining contracts continued

The following tables summarize the impacts of adopting IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018.

Consolidated income statement

for the year ended 31 December 2018

	Impact of changes in accounting policies		
	31 December 2018 as reported £m	Adjustments £m	Balances without adoption of IFRS 15 £m
Revenue	**511.9**	2.9	514.8
Cost of sales	**(271.7)**	(2.9)	(274.6)
Selling and distribution expenses	**(61.6)**	(2.0)	(63.6)
Income tax expense	**(16.1)**	0.5	(15.6)
Other	**(123.5)**	—	(123.5)
Profit for the year	**39.0**	(1.5)	37.5

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Impact of changes in accounting policies		
	31 December 2018 as reported £m	Adjustments £m	Balances without adoption of IFRS 15 £m
Profit for the year	**39.0**	(1.5)	37.5
Other comprehensive profit for the year	**9.4**	—	9.4
Total comprehensive income	**48.4**	(1.5)	46.9

Consolidated balance sheet

as at 31 December 2018

	Impact of changes in accounting policies		
	31 December 2018 as reported £m	Adjustments £m	Balances without adoption of IFRS 15 £m
Contract costs	**14.9**	(14.9)	—
Other	**372.1**	—	372.1
Total assets	**387.0**	(14.9)	372.1
Deferred tax liabilities	**(10.7)**	3.6	(7.1)
Other	**(198.0)**	—	(198.0)
Total liabilities	**(208.7)**	3.6	(205.1)
Retained earnings	**(170.8)**	11.1	(159.7)
Translation reserve	**(7.5)**	0.2	(7.3)
Total equity	**(178.3)**	11.3	(167.0)

27. Changes in accounting policies continued

b. Incremental costs of obtaining contracts continued

Consolidated statement of cash flows

for the year ended 31 December 2018

		Impact of changes in accounting policies	
	31 December 2018 as reported £m	Adjustments £m	Balances without adoption of IFRS 15 £m
Profit before income tax	**55.1**	(2.0)	53.1
Adjustment for net capitalization of contract costs	**(2.0)**	2.0	—
Other	**(23.1)**	—	(23.1)
Net cash from operating activities	**30.0**	—	30.0
Net cash used in investing activities	**(16.5)**	—	(16.5)

28. Related party transactions

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

a. Pension scheme Trustees

Transactions with the pension scheme Trustees are disclosed in Note 22.

b. Key management

Key management of the Group includes the Directors (Executive and Non-Executive) and other members of the Executive Committee. Emoluments of the Directors are disclosed in the Directors' remuneration report on pages 68 to 77. Emoluments paid to other members of the Executive Committee for employee services are shown in the table below:

	2018 £m	2017 £m
Salaries and short-term benefits	**2.2**	3.4
Terminations and post-employment benefits	**0.3**	—
Other long-term benefits	**0.7**	1.1
Total emoluments	**3.2**	4.5

29. Interests in Group undertakings

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
AirCert GmbH (acquired 2 November 2018)	Maria-Merian-Strasse 8, 85521, Ottobrunn, Germany	Germany	100%	Business services
British Standards Institution Group Iberia S.A.U.	Calle Juan Esplandiu, 15 3a plta, 28007, Madrid, Spain	Spain	100%	Business services
British Standards Institution Group Middle East WLC	4605 Palm Tower B, West Bay, Doha, PO Box 27774, Qatar	Qatar	49%	Business services
BSI America Professional Services Inc.	251 Little Falls Drive, Wilmington, DE, 19808, United States	USA	100%	Business services
BSI Assurance UK Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Brasil Sistemas de Gestao Ltda	Av. Pres. Juscelino Kubitschek, 1327 – 20° andar 04543-011 – São Paulo, Brasil	Brazil	100%	Business services
BSI Certification and Technical Training (Beijing) Limited	Room 2002, No. 24A Jianguomenwai Street, Chaoyang District, Beijing, 100004, China	China	100%	Business services
BSI Cybersecurity and Information Resilience (Ireland) Limited	Corrig Court, Corrig Road, Sandyford Industrial Estate, Dublin, D18C6K1, Ireland	Ireland	100%	Business services

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

29. Interests in Group undertakings continued

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
BSI Cybersecurity and Information Resilience (UK) Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Group (Thailand) Co., Ltd	127/25 Panjathani Tower, 20th Floor, Nonsee Road, Chongnonsee, Yannawa, Bangkok, 10120, Thailand	Thailand	100%	Business services
BSI Group America Inc.	251 Little Falls Drive, Wilmington, DE, 19808, United States	USA	100%	Business services
BSI Group ANZ Holdings Pty Ltd	Level 23, 35 Castlereagh Street, Sydney, NSW 2000, Australia	Australia	100%	Holding company
BSI Group ANZ Pty Limited	Level 23, 35 Castlereagh Street, Sydney, NSW 2000, Australia	Australia	100%	Business services
BSI Group Assurance Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Holding company
BSI Group Australia Holdings PTY Limited	Level 23, 35 Castlereagh Street, Sydney, NSW 2000, Australia	Australia	100%	Holding company
BSI Group Canada Inc.	Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Canada M5J 2T9	Canada	100%	Business services
BSI Group Deutschland GmbH	Eastgate, Hanauer Landstrasse 115, 60314, Frankfurt a.m., Germany	Germany	100%	Business services
BSI Group Eurasia Belgelendirrme Hizmetleri Limited Sirketi	Degirmen Sk No: 16 Ar Plaza, A-Blok Kat: 6 Ofis: 61–62, Kozyatagi – Kadikoy, Erenkoy, Istanbul, Turkey	Turkey	100%	Business services
BSI Group France Sarl	19 rue Alphonse de Neuville, 75017, Paris, France	France	98%	Business services
BSI Group Holdings The Netherlands BV	Thomas R Malthusstraat 3c, 1066 JR Amsterdam, The Netherlands	The Netherlands	100%	Holding company
BSI Group India Private Limited	A-2 Mira Corporate Suites, Plot 1 & 2, Ishwar Nagar, Mathura Road, New Delhi, 110020, India	India	100%	Business services
BSI Group Italia S.R.L.	Via Gustavo Fara, 35 20124, Milano, Italy	Italy	100%	Business services
BSI Group Japan K.K.	Seizan Bldg. 5F, 2-12-28 Kita-Aoyama, Minato-ku, Tokyo 107-0061, Japan	Japan	100%	Business services
BSI Group Korea Limited	Insa-dong, Tdehwa Bldgo, 8th Floor, 29 Insa-dong, 5-gil, Jongo-gu, Seoul, South Korea	South Korea	100%	Business services
BSI Group KSA	Sara Plaza Building, 2nd floor, King Abdulaziz Road, Al-Yasmin District Riyadh 11372, KSA	Saudi Arabia	100%	Business services
BSI Group Mexico S dr RL de CV	Av. Paseo de la Reforma 505, Piso 50, 06500 Ciudad de México, CDMX, Mexico	Mexico	100%	Business services
BSI Group Polska Spolka z o.o.	UL Krolewska, nr. 16, Lok, Kod 00-103, Poczta, Warszawa, Poland	Poland	100%	Business services
BSI Group Singapore Pte Limited	77 Robinson Road, Unit #28-01 & #28-03, Singapore, 068896	Singapore	100%	Business services
BSI Group South Africa (Pty) Limited	De Haviland Crescent Nr. 5, III Villaggio Nr. 12, Persequor, Pretoria, South Africa	South Africa	74%	Business services
BSI Group The Netherlands BV	Thomas R Malthusstraat 3c, 1066 JR Amsterdam, The Netherlands	The Netherlands	100%	Business services
BSI Healthcare Saudi Arabia LLC	SFDA Building, 2nd Floor Office, 854 Al Olaya Street, Riyadh, Al Ghadheer Area, Saudi Arabia	Saudi Arabia	100%	Business services
BSI International Projects Sarl	19 rue Alphonse de Neuville, 75017, Paris, France	France	100%	Business services

29. Interests in Group undertakings continued

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
BSI Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Holding company
BSI Management Systems Certification (Beijing) Co. Ltd	Room 2008, East Ocean Centre, No. 24A Jianguomenwai Street, Beijing, 100004, China	China	100%	Business services
BSI Management Systems CIS LLC	Panfilova str. 19/4, Khimki, 141407, Moscow reg., Russian Federation	Russia	100%	Business services
BSI Management Systems Ltd	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI New Zealand Limited	11a Wynyard Street, Devonport, Auckland, 0624, New Zealand	New Zealand	100%	Business services
BSI Pacific Limited	23rd Floor, Cambridge House, Taikoo Place, 979 King's Road, Island East, Hong Kong	Hong Kong	100%	Business services
BSI Pension Trust Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Pension plan trustee
BSI Professional Services Asia Pacific Limited	23rd Floor, Cambridge House, Taikoo Place, 979 King's Road, Island East, Hong Kong	Hong Kong	100%	Business services
BSI Professional Services EMEA Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Professional Services Holdings Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Holding company
BSI Professional Services Japan Co., Limited	2-12-28 Kitaaoyama Minato-ku, Tokyo 107-0061, Japan	Japan	100%	Business services
BSI Services (Asia Pacific) Sdn Bhd (incorporated 7 May 2018)	Suite 25.01, Level 25, Centrepoint South, The Boulevard, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur Wilayah Persekutuan, Malaysia	Malaysia	100%	Business services
BSI Services and Solutions (West) Inc.	2150 North First Street, Suite 450, San Jose, CA, 95131, United States	USA	100%	Business services
BSI Services and Solutions East Inc.	1187 Main Avenue, Suite 2B, Clifton, NJ, 07011, United States	USA	100%	Business services
BSI Services and Solutions NYC Inc.	80 State Street, Albany, NY, 12207, United States	USA	100%	Business services
BSI Services Holdings Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Services Malaysia Sdn Bhd	Unit 10-03, Level 10, Tower A, The Vertical Business Suites, Bangsar South, No. 8, Jalan Kerinchi, 59200, Kuala Lumpur, Malaysia	Malaysia	100%	Business services
BSI Standards Holdings Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Holding company
BSI Standards Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Vietnam Co., Ltd	Suite 1106, 11F/L Citilight Tower, 45 Vo Thi Sau Street, Dakao Ward, District 1, Ho Chi Minh City, Vietnam	Vietnam	100%	Business services
Espion UK Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
Hypercat Alliance Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
Neville-Clarke (M) Sdn Bhd	Level 15-2, Faber Imperial Court, Julan Sultan Ismail, 50250 Kuala Lumpur, Wilayah Persekutuan, Malaysia	Malaysia	30%	Business services

Notes to the consolidated financial statements continued

for the year ended 31 December 2018

29. Interests in Group undertakings continued

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
Neville-Clarke (Singapore) Pte Ltd	15 Hoe Chiang Road, #12-02 Tower Fifteen, Singapore, 089316	Singapore	100%	Business services
Neville-Clarke International Pte Ltd	15 Hoe Chiang Road, #12-02 Tower Fifteen, Singapore, 089316	Singapore	100%	Business services
Neville-Clarke International Sdn Bhd	Level 15-2, Faber Imperial Court, Julan Sultan Ismail, 50250 Kuala Lumpur, Wilayah Persekutuan, Malaysia	Malaysia	100%	Business services
Neville-Clarke International Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Holding company
Neville-Clarke Philippines, Inc	Unit 2408, The Orient Square, Emerald Avenue, Ortigas Center, Pasig City, The Philippines	The Philippines	>99%	Business services
PT BSI Group Indonesia	Talavera Office Park, Jl. TB. Simatupang kav.2, Talaver 2 Suite 20 Floor, Jakarta 12430, Indonesia	Indonesia	100%	Business services
PT Neville-Clarke Indonesia	Menara Bidakara 2, Lantai 3, Jl. Jendral Gatot Subroto Kav. 71-73, Komplek Bidakara, Jakarta Selatan, Indonesia	Indonesia	100%	Business services

* Percentage of ordinary share capital.

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

Independent auditors' report

to the Board of Directors of The British Standards Institution

Report on the audit of the parent company financial statements

Opinion

In our opinion, The British Standards Institution's parent company financial statements (the 'financial statements'):

- give a true and fair view of the state of the parent company's affairs as at 31 December 2018;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the 'Annual Report'), which comprise: the parent company balance sheet as at 31 December 2018 and the parent company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

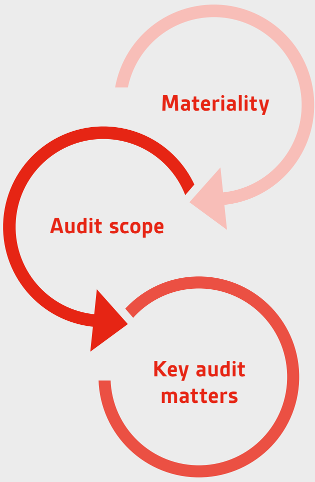
We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall materiality £620,000, based on 1% of total expenses (2017: £740,000, based on 2% of total expenses)

- We performed an audit of the Parent Company balance sheet and the statement of changes in equity and the notes to the financial statements, which include a description of the significant accounting policies.

- We have engaged pension specialists to perform work over the defined benefit pension plan.
- Valuation of defined benefit pension scheme assets and liabilities.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Independent auditors' report continued

to the Board of Directors of The British Standards Institution

Report on the audit of the parent company financial statements continued

Our audit approach continued

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of defined benefit pension scheme assets and liabilities	
The Company has a defined benefit pension plan with a net retirement benefit obligation liabilities of £71.7m, which is significant in the context of the overall balance sheet. The valuation of the pension liabilities and pension assets requires significant levels of judgement and technical expertise in choosing appropriate assumptions. The assumptions used to value the pension assets and pension liabilities can be found on page 142 within Note 13 to the financial statements. The Directors employ actuarial experts to assist them in identifying appropriate assumptions and valuing the assets and liabilities in the scheme. We have focused on this area because changes in a number of key assumptions (particularly discount rates, mortality and inflation) can have a material impact on the calculation of the liability. In 2018, as a result of the resolution of a recent legal case, an additional cost has been recognised relating to Guaranteed Minimum Pension ('GMP') equalisation. This has introduced additional estimation uncertainty to the financial statements and has been presented as an exceptional cost in the income statement.	We received and read the report issued to the Directors by the actuary. With the assistance of our own actuarial experts, we evaluated the Directors' assessment, based on guidance from their actuaries, of the assumptions made in relation to the valuation of the pension liabilities and assets. In particular, we tested the assumptions around discount rates, mortality and inflation by comparing them to our independently developed benchmarks. We noted that mortality, discount rate and inflation assumptions were slightly towards the prudent end of the range of these benchmarks. We determined that this stance was consistent both with the expert actuarial advice received by the Directors and the position is in the range at which assumptions were established in prior years. In addition, we have challenged management's actuarial expert's assumptions relating to the GMP equalisation charge and assessed the sensitivities of the underlying assumptions. Based on the work performed we found that the assumptions used were supported by the evidence obtained and the methodology used to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the parent company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£620,000 (2017: £740,000).
How we determined it	1% of total expenses (2017: 2% of total expenses).
Rationale for benchmark applied	The Parent Company's operations encompass the corporate centre, servicing the Group's pension obligations and charges related to the national standards body. As such, the key indicator for the performance of the business relates to the expenses recognised centrally. The benchmark applied to determine materiality has decreased from 2% to 1% of total expenses. Given BSI prepares financial statements as if it was a listed company, we have concluded, together with the Audit Committee, that it is appropriate to apply a materiality benchmark consistent with that applicable for a listed Group.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £31,000 (2017: £37,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Report on the audit of the parent company financial statements continued

Our audit approach continued

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the parent company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The Directors' assessment of the prospects of the parent company and of the principal risks that would threaten the solvency or liquidity of the parent company

As a result of the Directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the 'Code'), we are required to report to you if we have anything material to add or draw attention to regarding:

- The Directors' confirmation on page 27 of the Annual Report that they have carried out a robust assessment of the principal risks facing the parent company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 79 of the Annual Report as to how they have assessed the prospects of the parent company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the parent company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the Directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the Directors, on page 78, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the Board of Directors of the Group to assess the parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 65 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Independent auditors' report continued

to the Board of Directors of The British Standards Institution

Report on the audit of the parent company financial statements continued

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 61, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Board of Directors of the Group as a body to enable the Board to discharge its stewardship and fiduciary responsibilities under the terms of the Royal Charter and Bye-laws and where applicable and possible the Companies Act 2006 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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Directors' remuneration

The parent company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The Directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the parent company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matter

We have reported separately on the Group financial statements of The British Standards Institution for the year ended 31 December 2018.

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
20 March 2019

Parent company balance sheet

as at 31 December 2018

	Note	2018 £m	2017 £m
Fixed assets			
Intangible assets	4	**7.0**	6.2
Tangible assets	5	**6.5**	7.8
Investment property	6	**6.0**	5.6
Investment in subsidiaries	7	**39.9**	39.9
		59.4	59.5
Current assets			
Debtors (including £11.5m (2017: £14.5m) due after one year)	8	**183.9**	173.9
Fixed-term deposits	9	**15.0**	10.0
Cash at bank and in hand		**48.2**	31.2
		247.1	215.1
Creditors – amounts falling due within one year	10	**(160.0)**	(134.1)
Net current assets		**87.1**	81.0
Total assets less current liabilities		**146.5**	140.5
Defined benefit pension liability	13	**(71.7)**	(90.0)
Provision for liabilities	11	**(0.1)**	(0.1)
Net assets		**74.7**	50.4
Reserves			
Non-distributable reserves		**4.6**	4.3
Retained earnings		**70.1**	46.1
Total equity		**74.7**	50.4

The Company's profit for the year ended 31 December 2018 was £16.4m (2017: £18.6m).

The accompanying notes on pages 133 to 144 form an integral part of the parent company financial statements.

The financial statements on pages 131 and 132 were approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:

Craig Smith FCCA
Group Finance Director
20 March 2019

Parent company statement of changes in equity

for the year ended 31 December 2018

	Retained earnings £m	Non-distributable reserves £m	Total £m
At 1 January 2017	25.2	3.6	28.8
Profit for the year, net of taxes	17.9	0.7	18.6
Movement in actuarial valuation of defined benefit pension scheme, net of taxes	3.0	—	3.0
At 31 December 2017	**46.1**	**4.3**	**50.4**
Profit for the year, net of taxes	**16.1**	**0.3**	**16.4**
Movement in actuarial valuation of defined benefit pension scheme, net of taxes	**7.9**	**—**	**7.9**
At 31 December 2018	**70.1**	**4.6**	**74.7**

Retained earnings

Retained earnings represent accumulated comprehensive income for the year and prior years.

Non-distributable reserve

The non-distributable reserve arose on the revaluation of investment property on transition to FRS 102 and includes the associated deferred tax of £1.0m (2017: £0.9m). Any subsequent revaluation differences arising from the investment property are transferred to the non-distributable reserve.

Notes to the parent company financial statements
for the year ended 31 December 2018

1. Statement of compliance
The individual financial statements of The British Standards Institution have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard Applicable in the United Kingdom and the Republic of Ireland' (FRS 102), and the Companies Act 2006.

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

a. Basis of preparation
These financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

b. Going concern
The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

c. Exemptions for qualifying entities under FRS 102
FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has taken advantage of the following exemptions:

- FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and the Company's cash flows are included in the Group consolidated financial statements; and
- FRS 102 paragraph 1.12(e), from disclosing key management personnel compensation in total.

d. Exemptions under Companies Act 2006
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 the statement of changes in equity.

e. Foreign currencies
i. Functional and presentation currency
The Company's functional and presentation currency is the British Pound Sterling (£) and all values are rounded to the nearest £100,000 except when otherwise indicated.

ii. Transactions and balances
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 the 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.

f. 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 Company's activities. Revenue is calculated net of value added tax, returns, rebates and discounts allowed by the Company.

The Company recognizes revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Group's activities as described below. The Company 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. Rendering of services
Membership, subscriptions and annual management fees provide varying levels of service, which can include access to information services, 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.

ii. 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.

g. 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.

Notes to the parent company financial statements continued

for the year ended 31 December 2018

2. Principal accounting policies continued

h. Dividend income

Dividend income is recognized when the right to receive payment is established.

i. Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial instruments, including trade and other receivables, cash at bank and loans to fellow subsidiary companies, are initially recognized at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortized cost using the effective interest method.

At the end of each reporting period, financial assets measured at amortized cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognized in profit or loss.

Other financial assets are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognized in the profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognized when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) control of the asset has been transferred to another party which has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow Group companies, are initially recognized at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

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. If not, they are presented as non-current liabilities. Trade payables are recognized initially at transaction price and subsequently measured at amortized cost using the effective interest method. The Company does not hold or issue any other financial liabilities for trading purposes.

j. Finance and operating leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present values of minimum lease payments.

The Company has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 January 2014) and continues to credit such lease incentives to the profit and loss account over the period to the first review date on which the rent is adjusted to market values.

The Company does not have any finance leases.

k. Fixed-term deposits

Fixed-term deposits are liquid investments with original maturities of over three months.

l. Cash and cash equivalents

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 are shown within borrowings in current liabilities.

m. 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.

2. Principal accounting policies continued

n. Intangible assets

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 three to five 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 Company 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;
- 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 three 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.

o. Tangible fixed assets

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 Company 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.

Depreciation 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:

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 Company takes into account are the expected rate of technological developments and the intensity at which the assets are expected to be used.

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.

Impairment of non-financial assets

Assets 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).

p. Investment property

Investment properties are measured initially at cost, including purchase price and any directly attributable expenditure. Investment properties are measured at fair value at each reporting date. Gains or losses arising from changes in the fair value of the investment property are non-distributable and are recognized in the profit or loss.

Transfers are made to or from investment property to or from other categories of tangible fixed assets only when there is a change in use of the property.

Notes to the parent company financial statements continued
for the year ended 31 December 2018

2. Principal accounting policies continued

q. Provisions for liabilities and charges

A provision is recognized in the balance sheet when the Company 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a finance cost.

r. Contingent liabilities

Contingent liabilities, arising as a result of past events, are not recognized when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date, or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

s. Employee benefits

i. Defined benefit pension schemes

The Company 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 Company'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 Company's net obligation is performed by an independent qualified actuary as determined by the Trustees. Pension scheme assets are measured using market values for quoted assets. The MetLife Annuity Policy asset is valued at an actuarial estimate using the assumptions shown in Note 13. The pension scheme liabilities are measured using the projected unit actuarial method where estimated future cash flows are discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent duration 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 administration costs of operating the scheme. 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 the period in which they arise.

ii. Defined contribution pension schemes

The Company 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.

t. Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been substantively enacted by the period end.

Management periodically evaluates the position taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes a provision where appropriate on the basis of amounts expected to be paid to the authorities.

u. Deferred taxation

Deferred tax arises from timing differences between the inclusion of income and expenses in tax assessments in periods different from those in which they are recognized in the financial statements.

Deferred tax is recognized on all timing differences at the reporting date with some exceptions. Unrelieved tax losses and other deferred tax assets are only recognized when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profit.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

v. Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same Group. It does not disclose transactions with members of the same Group that are wholly owned.

3. Critical accounting judgements and estimation uncertainty

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.

Critical accounting estimates and assumptions

The Company 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. Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilization and the physical condition of the assets. See Note 5 for the carrying amount of tangible assets and Note 2 for the useful lives applied for each asset class.

b. Useful economic lives of intangible assets

The useful economic lives used to amortize intangible assets relate to the expected future performance of the assets acquired and management's estimate of the period over which the economic benefit will be derived from the asset. The estimated useful life of these intangible assets is three years. See Note 4 for the carrying amount of the intangible assets.

c. Defined benefit scheme

The cost of defined benefit pension schemes 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 principal assumptions are detailed in Note 13.

The liabilities have been calculated by, and the assumptions have been set on the recommendations of, an independent qualified actuary. The liabilities allow for indexation of benefits in line with the Consumer Prices Index (CPI).

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Increase/(decrease) in present value of deficit at 31 December 2018		
	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	**0.25% p.a.**	**(13.6)**	**14.3**
Inflation rate*	**0.25% p.a.**	**2.4**	**(3.8)**
Salary escalation	**0.25%**	**0.6**	
Life expectancy	**Approximately 1 year**	**11.0**	

* This sensitivity allows for the impact on all inflation related assumptions (salary increases, deferred revaluation and pension increases, subject to relevant caps and floors).

Notes to the parent company financial statements continued
for the year ended 31 December 2018

4. Intangible assets

	Computer software £m
Cost	
At 1 January 2017	17.8
Additions	3.4
Disposals	(1.9)
At 31 December 2017	**19.3**
Additions	**4.0**
Disposals	**(0.6)**
At 31 December 2018	**22.7**
Accumulated amortization and impairment	
At 1 January 2017	(12.2)
Charge in the year	(2.8)
Disposals	1.9
At 31 December 2017	**(13.1)**
Charge in the year	**(2.6)**
At 31 December 2018	**(15.7)**
Net book value at 31 December 2018	**7.0**
Net book value at 31 December 2017	6.2

5. Tangible assets

	Short leasehold improvements £m	Asset under construction £m	Plant, machinery and office equipment £m	Total £m
Cost				
At 1 January 2017	6.2	0.8	5.9	12.9
Additions	—	2.6	—	2.6
Disposals	(2.4)	—	(1.0)	(3.4)
Reclassifications	2.0	(3.3)	1.3	—
At 31 December 2017	**5.8**	**0.1**	**6.2**	**12.1**
Additions	**—**	**0.7**	**—**	**0.7**
Disposals	**—**	**—**	**(0.6)**	**(0.6)**
Reclassifications	**—**	**(0.7)**	**0.7**	**—**
At 31 December 2018	**5.8**	**0.1**	**6.3**	**12.2**
Accumulated depreciation and impairment				
At 1 January 2017	(2.6)	—	(3.0)	(5.6)
Charge in the year	(0.7)	—	(0.9)	(1.6)
Disposals	2.4	—	0.5	2.9
At 31 December 2017	**(0.9)**	**—**	**(3.4)**	**(4.3)**
Charge in the year	**(0.7)**	**—**	**(0.8)**	**(1.5)**
Disposals	**—**	**—**	**0.1**	**0.1**
At 31 December 2018	**(1.6)**	**—**	**(4.1)**	**(5.7)**
Net book value at 31 December 2018	**4.2**	**0.1**	**2.2**	**6.5**
Net book value at 31 December 2017	4.9	0.1	2.8	7.8

6. Investment property

	2018 £m	2017 £m
Balance at 1 January	**5.6**	4.7
Fair value gains on valuation	**0.4**	0.9
Balance at 31 December	**6.0**	5.6

The estimated fair value of the Company's investment property is £6.0m (2017: £5.6m) which relates to the Company's freehold Hemel Hempstead site. This fair value is an estimated amount for which the site should exchange on the valuation date between a willing buyer and the Company in an arm's length transaction. A valuation has been performed by an independent firm of surveyors.

7. Investment in subsidiaries

	2018 £m	2017 £m
Cost at 1 January and at 31 December	**39.9**	39.9

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

A list of subsidiaries is provided in Note 29 to the consolidated financial statements.

8. Debtors

	2018 £m	2017 £m
Trade debtors	**2.1**	0.4
Amounts owed by Group undertakings	**159.6**	148.1
Corporation tax receivable	**1.2**	2.8
Other debtors	**0.5**	0.1
VAT receivable	**1.0**	0.8
Prepayments and accrued income	**6.0**	5.1
Deferred taxation (Note 12)	**13.4**	16.6
Derivative financial instruments	**0.1**	—
Total debtors	**183.9**	173.9

Amounts owed by Group undertakings include trade and finance amounts. The unsecured finance amounts of £54.0m (2017: £50.2m) have no fixed terms of repayment and are repayable on demand, but are interest bearing with the rates ranging between 1.8% and 6.0% (2017: 2.0% and 8.8%).

Deferred taxation includes £11.6m (2017: £14.6m) to be recovered after more than one year.

9. Fixed-term deposits

The Group has invested £15.0m of cash in a fixed-term bank deposit (2017: £10.0m), subject to a notice period of 95 days. In the parent company balance sheet this fixed-term deposit is shown within current assets.

10. Creditors: amounts falling due within one year

	2018 £m	2017 £m
Trade creditors	**1.4**	1.2
Amounts owed to Group undertakings	**137.7**	113.1
Social security and other payroll taxes	**0.6**	0.5
Other creditors	**0.9**	0.3
Accruals	**13.7**	12.7
Deferred income	**5.7**	6.3
Creditors falling due within one year	**160.0**	134.1

Trade creditors are non-interest bearing and are generally on 30–60 day terms. Amounts owed to Group undertakings include trade and finance amounts. The unsecured finance amounts of £9.9m (2017: £6.3m) have no fixed terms of repayment and are repayable on demand, but are interest bearing with rates ranging between 1.8% and 5.4% (2017: 3.0% and 5.4%).

Notes to the parent company financial statements continued

for the year ended 31 December 2018

11. Provisions for liabilities

	Property provisions £m
At 1 January 2018	**0.1**
Released to the profit and loss account	**—**
At 31 December 2018	**0.1**

The property provisions are held against dilapidations. 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.

12. Deferred taxation

	2018 £m	2017 £m
Deferred tax assets:		
– To be recovered after more than twelve months	**12.5**	15.4
– To be recovered within twelve months	**1.8**	2.0
Total deferred tax assets	**14.3**	17.4
Deferred tax liabilities:		
– To be incurred after more than twelve months	**(0.9)**	(0.8)
Total deferred tax liabilities	**(0.9)**	(0.8)
Total net deferred tax assets	**13.4**	16.6

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

	Accelerated capital allowances £m	Other timing differences £m	Pension provision £m	Total £m
At 1 January 2018	**0.8**	**(0.2)**	**16.0**	**16.6**
Credited/(debited) to profit and loss account	**0.5**	**(0.2)**	**—**	**0.3**
Debited to current year reserves	**—**	**—**	**(3.5)**	**(3.5)**
At 31 December 2018	**1.3**	**(0.4)**	**12.5**	**13.4**

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 year were £1.6m (2017: £1.4m). This includes salary sacrificed contributions.

b. Defined benefit scheme

The Company operates a defined benefit plan in the UK (the 'Plan') which provides benefits linked to salary on retirement or earlier date of leaving service. The Plan closed to new entrants and future accrual, as at 30 April 2010, although the link to final salary remains whilst members are still employed by the Company. The Plan operates under the regulatory framework of the Pensions Act 2004. The Trustees have the primary responsibility for governance of the Plan. The Trustees comprise representatives of the Company, an independent Trustee and members of the Plan. Benefit payments are from Trustee-administered funds and the Plan assets are held in a Trust which is governed by UK regulation.

A valuation of the UK defined benefit plan was carried out under the Statutory Funding Objective as at 31 March 2016. This revealed an ongoing funding level of 80% (31 March 2013: 74%). The Group subsequently agreed a schedule of contributions with the Trustees which was put in place from 1 April 2016. It requires contributions from the Group to improve the funding level of the Plan and to cover the expenses of running the Plan. The Group agreed to pay additional contributions of £94.5m over the period from 1 April 2016 to 31 March 2023. Contributions in respect of future service benefits ceased on 30 April 2010.

The liabilities have been calculated by, and the assumptions have been set on the recommendations of, an independent qualified actuary as required by FRS 102.

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

The Company paid a total of £13.5m in contributions to the fund during the year (2017: £13.5m).

13. Pension obligations continued

b. Defined benefit scheme continued

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

	2018 £m	2017 £m
Present value of defined benefit obligations	**410.8**	440.3
Fair value of plan assets	**(339.1)**	(350.3)
Net liability in the balance sheet	**71.7**	90.0

The movement in the defined benefit obligation over the year was as follows:

	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 January 2017	439.3	(335.2)	104.1
Amounts charged/(credited) to the income statement:			
Administration expenses	—	0.6	0.6
Interest expense/(income)	11.2	(8.7)	2.5
	11.2	(8.1)	3.1
Re-measurements:			
– Return on plan assets, excluding amounts included in interest expense	—	(6.9)	(6.9)
– Gain from change in demographic assumptions	(6.8)	—	(6.8)
– Loss from change in financial assumptions	10.0	—	10.0
– Experience gains	—	—	—
	3.2	(6.9)	(3.7)
Contributions:			
– Employers	—	(13.5)	(13.5)
Payments from plans:			
– Disbursements	(13.4)	13.4	—
	(13.4)	(0.1)	(13.5)
At 31 December 2017	**440.3**	**(350.3)**	**90.0**
Amounts charged/(credited) to the income statement:			
Administration expenses	**—**	**0.5**	**0.5**
Service cost – GMP adjustment	**2.5**	**—**	**2.5**
Interest expense/(income)	**10.6**	**(8.7)**	**1.9**
	13.1	**(8.2)**	**4.9**
Re-measurements:			
– Loss on plan assets, excluding amounts included in interest expense	**—**	**18.6**	**18.6**
– Gain from change in demographic assumptions	**(3.8)**	**—**	**(3.8)**
– Gain from change in financial assumptions	**(25.0)**	**—**	**(25.0)**
– Experience losses	**0.5**	**—**	**0.5**
	(28.3)	**18.6**	**(9.7)**
Contributions:			
– Employers	**—**	**(13.5)**	**(13.5)**
Payments from plans:			
– Disbursements	**(14.3)**	**14.3**	**—**
	(14.3)	**0.8**	**(13.5)**
At 31 December 2018	**410.8**	**(339.1)**	**71.7**

Notes to the parent company financial statements continued
for the year ended 31 December 2018

13. Pension obligations continued

b. Defined benefit scheme continued

The major assumptions used for the updated actuarial valuation were:

	2018 % p.a.	2017 % p.a.
Rate of general increase in salaries	**4.30**	4.20
Rate of revaluation in deferment	**2.30**	2.20
Pension increase rate:		
– RPI (min. 3%, max. 5%)	**3.60**	3.65
– CPI (min. 3%, max. 5%)	**3.30**	3.20
Discount rate	**2.85**	2.45
Inflation assumption – RPI	**3.30**	3.20
Inflation assumption – CPI	**2.30**	2.20

Life expectancy at age 65 for a member currently aged 45 is 24.6 (2017: 25.2) years (men) or 26.2 (2017: 26.2) years (women). Life expectancy for a member currently aged 65 is 23.2 (2017: 23.5) years (men) or 24.6 (2017: 24.7) years (women).

Plan assets are comprised as follows:

	Value at 31 December 2018		Value at 31 December 2017	
	£m		£m	
Schroders Diversified Growth Fund	**90.4**	**27%**	90.6	26%
Standard Life Global Absolute Return Strategies Fund	**64.5**	**19%**	63.7	19%
M&G Credit Fund	**20.0**	**6%**	20.3	6%
Schroders Liability-Driven Investments	**38.3**	**11%**	—	—
Schroders Corporate Bond Fund	**10.4**	**3%**	50.7	14%
M&G European Loan Fund	**—**	**—**	8.4	2%
Alcentra Credit Fund	**20.8**	**6%**	17.0	5%
Cash	**5.3**	**2%**	4.2	1%
MetLife Annuity Policy	**89.4**	**26%**	95.4	27%
Total fair value of assets	**339.1**	**100%**	350.3	100%

Expected contributions to retirement benefit plans for the year ending 31 December 2019 are £13.5m (2018: £13.5m).

The weighted average duration of the defined benefit obligation is sixteen years (2017: eighteen years).

14. Financial assets

At 31 December 2018	Cash flow hedges at fair value £m	Loans and receivables £m
Assets as per balance sheet		
Debtors excluding prepayments and accrued income and deferred taxation	**—**	**164.5**
Derivative financial instruments	**0.1**	**—**
Fixed-term deposits	**—**	**15.0**
Cash and cash equivalents	**—**	**48.2**
Total	**0.1**	**227.7**

At 31 December 2018	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet	
Creditors excluding non-financial liabilities	**154.3**
Total	**154.3**

14. Financial assets continued

At 31 December 2017	Loans and receivables £m
Assets as per balance sheet	
Debtors excluding prepayments and accrued income and deferred taxation	152.2
Fixed-term deposits	10.0
Cash and cash equivalents	31.2
Total	193.4

At 31 December 2017	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet	
Creditors excluding non-financial liabilities	127.8
Total	127.8

Derivative financial instruments
The Company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency transactions. At 31 December 2018 the outstanding contracts all mature within twelve months (2017: twelve months) of the year end. The Company is committed to buy CHF 1.9m (2017: CHF 2.4m) and sell USD 27.5m (2017: USD 27.5m) for a fixed Sterling amount.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilize observable inputs. The key assumptions used in valuing the derivatives are the forward exchange rates for GBP:CHF and GBP:USD.

The Company has no interest rate derivative instruments (2017: none).

15. Employees

	2018 £m	2017 £m
Wages and salaries	**17.8**	15.9
Social security costs	**2.2**	2.0
Long Term Incentive Plan (LTIP) expense	**0.5**	1.2
Other pension costs	**1.6**	1.4
Defined benefit plan – Guaranteed Minimum Pension (GMP) adjustment	**2.5**	—
Total employee benefit expense	**24.6**	20.5

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

	2018 Number	2017 Number
Production, inspection and laboratory	**20**	17
Sales and distribution	**39**	34
Administration	**189**	169
Total headcount	**248**	220

Disclosures in respect of Directors' emoluments can be found in the Directors' remuneration report on pages 68 to 77.

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 £0.2m (2017: £0.2m).

17. Capital commitments

	2018 £m	2017 £m
Capital expenditure that has been contracted for but not provided for in the financial statements	**2.0**	0.2

Notes to the parent company financial statements continued
for the year ended 31 December 2018

18. Financial commitments
At 31 December 2018, annual commitments under non-cancellable operating leases were as follows:

	2018			2017		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
No later than 1 year	1.8	0.1	1.9	1.8	0.1	1.9
Later than 1 year and no later than 5 years	7.2	0.2	7.4	7.2	0.2	7.4
Later than 5 years	3.3	—	3.3	5.1	—	5.1
Minimum lease payments	12.3	0.3	12.6	14.1	0.3	14.4

Other leases relate to the lease of motor vehicles.

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 2018, the Company held foreign exchange contracts to the value of £23.1m (2017: £22.0m), all expiring within one year. The mark-to-market value of these contracts was £0.1m (2017: £nil).

19. Related party transactions
Transactions with related parties have been determined in accordance with FRS 102 and are disclosed below:

a. Pension scheme Trustees
Transactions with the pension scheme Trustees are disclosed in Note 13.

b. Key management
The Company has taken advantage of the exemption available under FRS 102 paragraph 1.12(e) from disclosing key management personnel compensation in total.

c. Transactions with non-wholly owned subsidiaries
There were no material transactions with non-wholly owned subsidiaries during the year. 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.

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 the normal course of its business, the Company from time to time provides advance payment guarantees, performance bonds and other bonds in connection with its 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 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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