bsi.

The British Standards Institution

Annual report and financial statements 2017

A successful organization is...

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

A successful organization is...

resilient
See page 45

secure
See page 7

trusted
See page 5

agile
See page 35

innovative
See page 29

robust
See page 11

responsible
See page 9

Highlights of 2017

Revenue
£473.0m +18%
2016: £401.8m

Underlying operating profit
£59.5m +19%
2016: £50.1m

Operating profit
£55.3m +17%
2016: £47.3m

Cash and deposits
£67.8m +41%
2016: £48.1m

Net asset value
£120.3m +45%
2016: £82.9m

Average employees
4,333 +13%
2016: 3,835

- Strong global performance in calmer economic conditions
- Record underlying revenue for the eighteenth consecutive year
- Record 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'.

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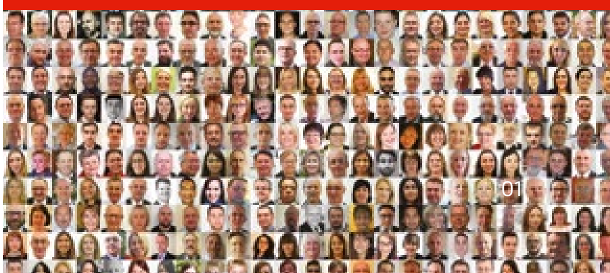
Parent company financial statements

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

Read more about our people on pages 21 and 41



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.

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.

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

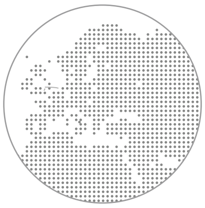
Our delivery network
- Our network of 90 offices in 31 countries allows us to form a partnership with our clients, large and small, wherever they are located.

Our regions

...delivered through local relationships and resources

Read more on **p4**

EMEA



Americas

Asia Pacific

Our streams

...a specialized combination of products and services

Read more on **p6**

Knowledge

Assurance

Compliance

Our method:

We provide a tailored 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

…across many sectors
but focusing on a few

Read more on **p8**

Healthcare

Food

Built Environment

Aerospace and Automotive

All other sectors

Our domains

…Organizational Resilience
across the business

Read more on **p10**

Stakeholder value

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

Our main stakeholders are:

- Our members
- Our clients
- Our employees
- Our experts
- Our National Standards Body partners
- Our suppliers
- Our 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.

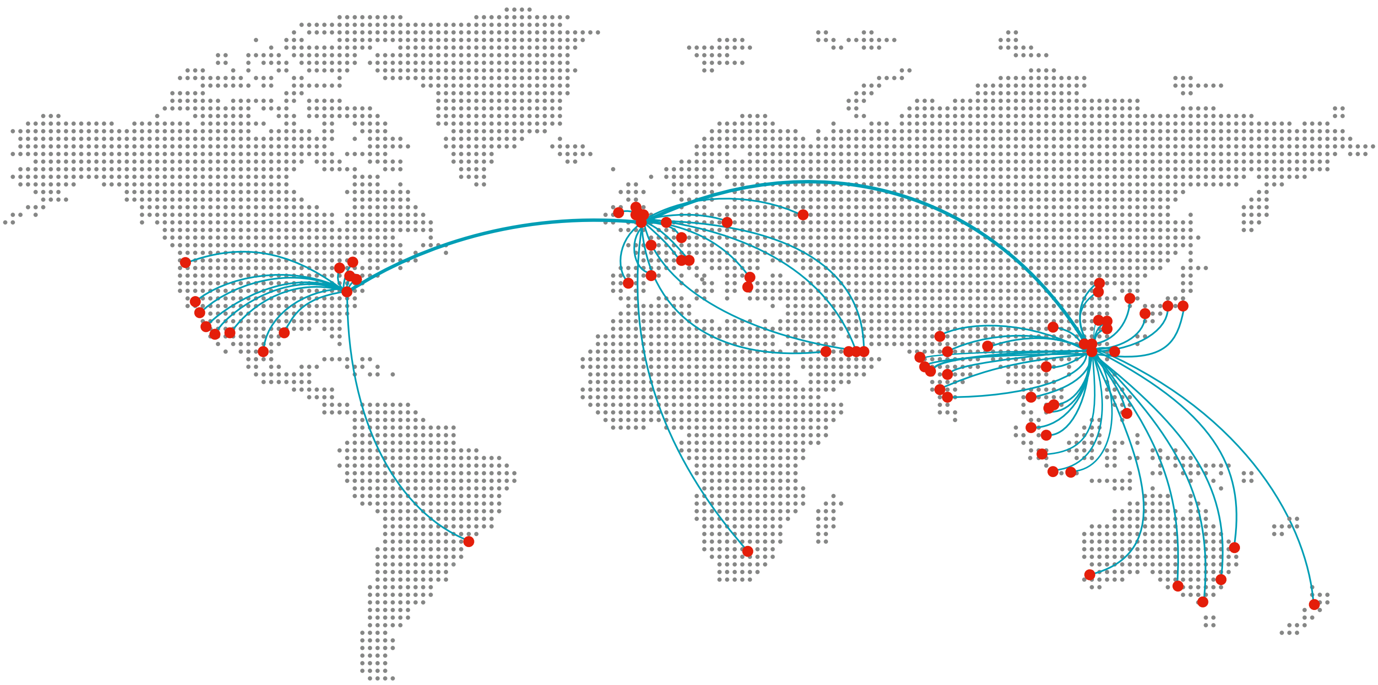
Support

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

Imparting our expertise worldwide

BSI is an integrated global enterprise, able to serve clients in over 190 countries from 90 offices in 31 countries in three regions across the world. We have a presence on every continent.

We have local expertise in each of these countries, to ensure that our clients receive the quality service they have come to expect from us.



Americas

Our Americas headquarters are in Herndon, near Washington DC, US, and we have offices across the US and in Canada, Brazil and Mexico.

We work with

49%

of the Fortune 500

Read more on **p24**

EMEA

In addition to our global headquarters in Chiswick, London, and our EMEA headquarters in Milton Keynes, UK, we have offices in nine other European countries, three more countries in the Middle East and one in Africa.

We work with

75%

of the FTSE 100

Read more on **p22**

Asia Pacific

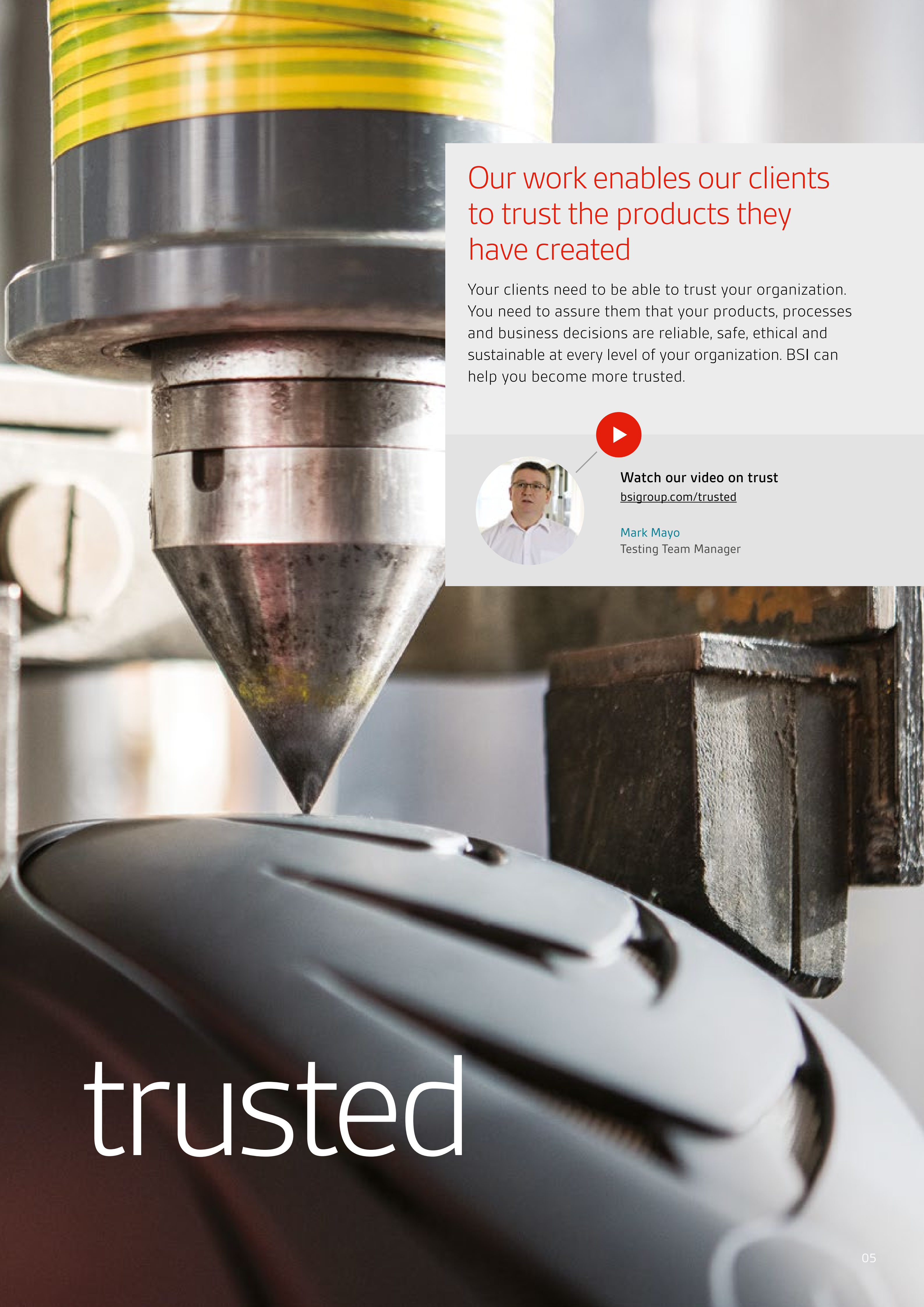
Our Asia Pacific management is based in Hong Kong and we have offices in thirteen countries in the region, from India in the west to New Zealand in the east.

We work with

77%

of the Nikkei Index

Read more on **p25**



Our work enables our clients to trust the products they have created

Your clients need to be able to trust your organization. You need to assure them that your products, processes and business decisions are reliable, safe, ethical and sustainable at every level of your organization. BSI can help you become more trusted.

Watch our video on trust
bsigroup.com/trusted

Mark Mayo
Testing Team Manager

trusted

Our business model continued

Business streams

Our products and services

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

Knowledge

Standards Development and Publishing

The core of our business is the knowledge that we create and impart to our clients. In the standards arena we continue to build our reputation as an expert body, bringing together subject specialists from industry to shape standards at national, regional and international levels.

Revenue

£60.7m

2016: £59.4m

13% of Group revenue

Read more on **p26**

Assurance

Systems and 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

£337.7m

2016: £295.5m

71% of Group revenue

Read more on **p27**

Compliance

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

£74.6m

2016: £46.9m

16% of Group revenue

Read more on **p28**

The work that we do helps our clients, and their clients, feel more secure

A secure organization is better protected from threats and your stakeholders need to be confident that it is secure and dependable. Security is about assessing, managing and mitigating risks from flood, fire and theft to cyber-crime and supply chain disruption. BSI can help you be more secure.

Watch our video on security
bsigroup.com/secure

Kwadwo Anim-Appiah
Client Manager, Information Security

secure

Our chosen focus sectors

We work with over 86,000 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 Sydney.

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 and environmental and cyber security requirements to face their future challenges.

Responsible companies understand their obligations in the wider community

A responsible organization has responsible leaders who act legally and ethically to manage risks and embrace opportunities. It assures the health and wellbeing of its people and provides quality assured products. It controls its impact on the environment, minimizing energy consumption while managing waste. BSI can help you be more responsible.

Watch our video on responsibility
bsigroup.com/responsible

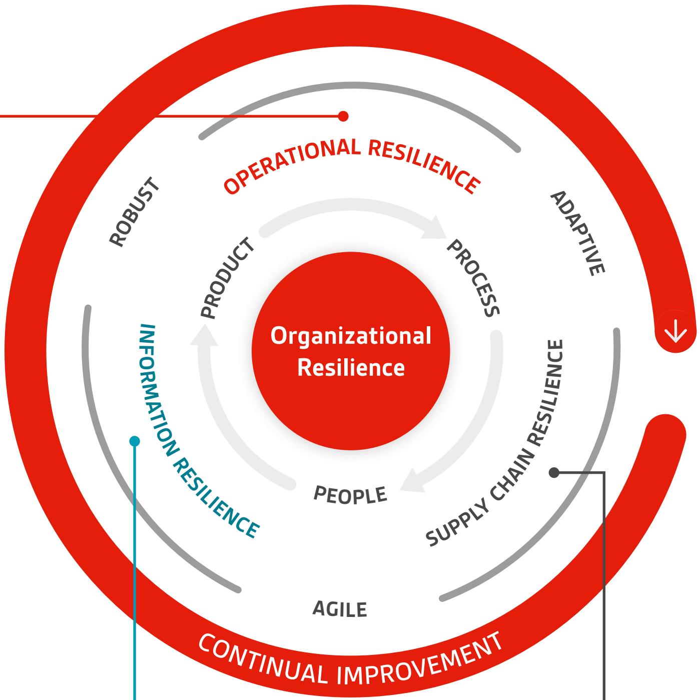
Christy Foster
EHS Director, Healthcare

responsible

Organizational Resilience

The ability of an organization to anticipate, prepare for, and respond and adapt to incremental change and sudden disruption in order to survive and prosper.

We have identified three domains that are critically important in achieving this:



Operational Resilience

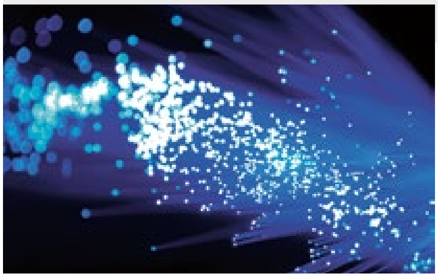
A resilient organization has a full understanding of how it is run and the environment in which it operates.

This includes identifying operational changes across its products, services and processes in order to meet the needs of its clients over time, and how an organization values its people and governs itself. It requires demonstrable evidence that an organization is not complacent and is always challenging itself to improve performance and grow sustainably.

Information Resilience

In today's world, organizations must be trusted to safeguard sensitive information.

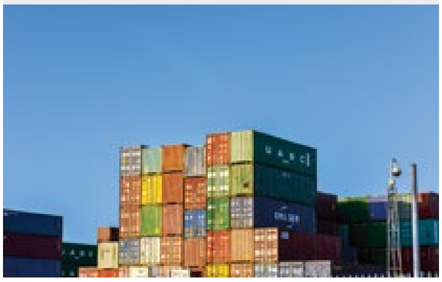
A resilient organization must manage its information – physical, digital and intellectual property – throughout its lifecycle, from source to destruction. This requires the adoption of practices that allow stakeholders to gather, store, access and use information securely and accurately.

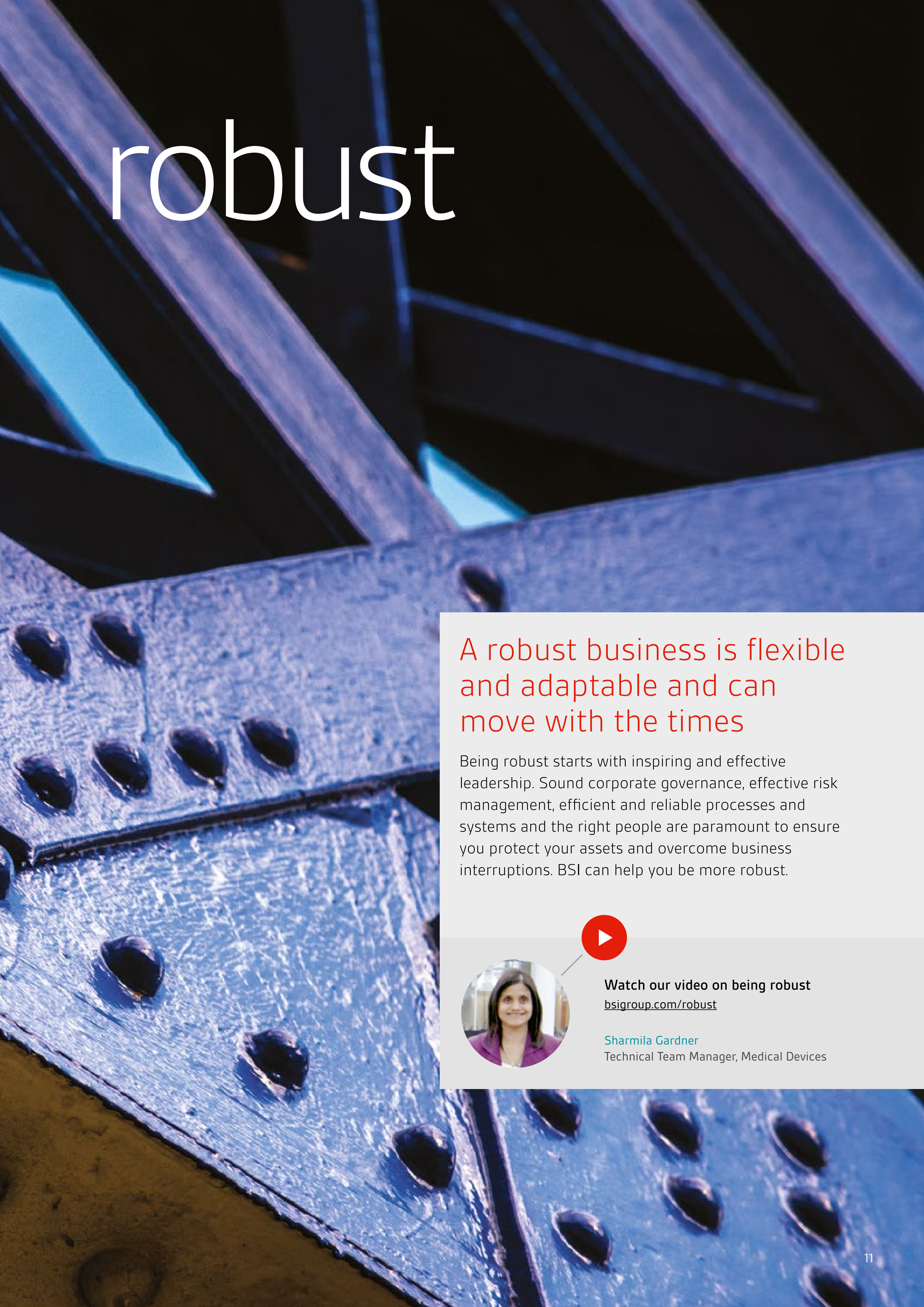


Supply Chain Resilience

As supply chain networks increasingly span continents and become more complex, the ability to quantify and mitigate supply chain risk throughout the procurement, manufacturing, transportation and sales lifecycle is paramount.

Organizations need to identify their critical risks to minimize disruption and manage global operational, financial and reputational exposure.





robust

A robust business is flexible and adaptable and can move with the times

Being robust starts with inspiring and effective leadership. Sound corporate governance, effective risk management, efficient and reliable processes and systems and the right people are paramount to ensure you protect your assets and overcome business interruptions. BSI can help you be more robust.

Watch our video on being robust
bsigroup.com/robust

Sharmila Gardner
Technical Team Manager, Medical Devices

Our strategic vision

To be the business improvement partner of choice.

Drive thought leadership

Establish BSI as a thought leader on Organizational Resilience

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

Develop market leadership and integrated solutions in our chosen sectors

- Develop leadership in our chosen sectors of Healthcare, Food, the Built Environment and Aerospace and Automotive
- Continue to develop our key account management and service offering for clients in these sectors from all of our business streams

Develop our offering in our chosen domains

- Develop leadership in the domains of Operational, Information and Supply Chain Resilience
- Continue to develop our service offering in these domains from all of our business streams

Innovate at BSI

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

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

Enable a resilient world, embedding social responsibility in BSI culture

- Encourage and support our people to make a positive difference in their communities and to the environment
- Celebrate our many successes in this area

FIND OUT MORE

Read about our KPIs on **p15**

Read about our Risks on **p30**

Read about Social Responsibility on **p40**

Deliver client-centric services

Position BSI as a Global Standards Organization

- Improve our offering to our members so that we continue to share a mutually beneficial relationship
- Expand our National Standards Body services by working with thought leaders in the UK and globally

Develop our Publishing business as a knowledge solutions provider

- Extend our services to support clients at key points in their product lifecycle and supply chains
- Further invest in innovation and technology solutions to provide ever improving smart services and responsive content

Build a leading and integrated Assurance 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

Expand 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

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 a One BSI integrated global marketing and communication programme

- Ensure a single One BSI 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

Tracking progress

In our 2014 Annual Report we set strategic KPIs. The main financial targets were to reach £500m revenue and over £50m underlying operating profit (UOP) by 2018. We surpassed the UOP target in 2016, and are reporting almost 95% of the 2018 revenue target this year, having delivered a 10% organic growth rate in 2017. As a result, we have taken the decision to reset key performance indicators and targets for 2020 to align with our current strategic initiatives. These can be seen on the following page.

The 2017 results of the non-financial key performance indicators are broadly in line with expectations and, in most cases, on track to achieve their 2018 targets. An exception to this is the number of clients which, barring further acquisitions, is unlikely to reach 95,000 in 2018. However, our average revenue per account (ARPA) has increased faster than expected, meaning that the 2018 revenue target should be exceeded.

Financial

Revenue

£473.0m

+18%

17	473.0	Target by 2018 >£500m
16	401.8	
15	331.1	

Underlying operating profit

£59.5m

+19%

17	59.5	Target by 2018 >£50m
16	50.1	
15	35.4	

Revenue from acquisitions

≈£78m

+7%

17	≈78	Target by 2018 >£100m
16	≈73	
15	≈32	

Non-financial

Clients

86k

+6%

17	86	Target by 2018 >95k
16	81	
15	80	

Client retention

62%

-3%

17	62	Target by 2018 >66%
16	64	
15	64	

NPS* client satisfaction

+53

+6%

17	+53	Target by 2018 >+50
16	+50	
15	+51	

OSAT client satisfaction**

8.7

+0%

17	8.7	Target by 2018 >8.8
16	8.7	
15	8.7	

Employee engagement

67%

+3%

17	67	Target by 2018 >70%
15	65	
14	63	

* NPS: net promoter score.

** OSAT: overall satisfaction.

Our new KPIs

Our new key performance indicators, with their 2020 targets, reflect the focus of our evolving strategic plan as detailed on pages 12 to 13.

Financial KPIs

Revenue[1]

£473.0m

Target for 2020: £625m

Our new 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.

Underlying operating profit[2]

£59.5m

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. We will continue to invest in our infrastructure to support these changes and ensure our resilience.

Client-facing KPIs

Net promoter score[3]

+53

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 seek to capitalize on this and continue to grow strongly, 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.

Average revenue per account[4]

£5,100

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 ARPA will help to indicate if we are being successful in this objective.

Employee-facing KPIs

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 listening to our employees for areas where we can improve our performance as employers.

Retention rate[6]

89%

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 are able to develop their careers in fulfilling roles. 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.

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.

Chairman's statement

Sir David Brown, Chairman

BSI performed strongly in 2017

BSI's high reputation continues to be maintained and the power of its brand continues to strengthen.

'BSI recorded higher levels of revenue and profit than ever before in its 116 years'

I am pleased to be able to report that BSI performed strongly in 2017, recording higher levels of revenue and profit than ever before in its 116 years. Our established strategy of pursuing a judicious blend of organic and acquisitive growth is continuing to enable us to enhance the value we deliver to our clients both in our long-established markets and in markets relatively new to us, without compromising BSI's financial strength. Economic conditions remained reasonably stable in the majority of our markets in 2017, despite a degree of uncertainty in our domestic market as the negotiations to end the UK's membership of the European Union proceeded and continued concerns about the volatility in exchange rates. We continue to realize the benefits of having invested strongly in our business in recent years, both throughout the downturn in the global economy and in the more recent somewhat improved climate and ended the year as we began it, in strong financial health. We grew underlying revenue for the eighteenth consecutive year, by 18% year on year to £473.0m, and grew underlying operating profit by 19% to £59.5m.

The single, small, acquisition in 2017 was made without recourse to external debt and we ended the year with £67.8m in cash and deposits, £19.7m or 41% higher than the level at the start of the year.

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 2017 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 ever it has 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.

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 applicable and, in doing so, have established internal governance processes that reflect best practice in business today. The ultimate accountability for the governance of BSI lies with our widely experienced Board of Directors, which has a majority of Non-Executive Directors. The Board is supported by Audit, Remuneration, Nominations and Social Responsibility Committees, which are chaired by, and primarily consist of, Non-Executive Directors. These formal Committees are complemented by the Standards Policy and Strategy Committee, which does invaluable work in gathering and distilling the views of those interested in standards and advising the Board. Underpinning this governance framework, our structure of internal controls and financial management and, indeed, everything that every BSI employee does, wherever they do it, is the BSI Code of Business Ethics. It sets the ethical values and high standards of integrity that apply to every aspect of the way that we do business.

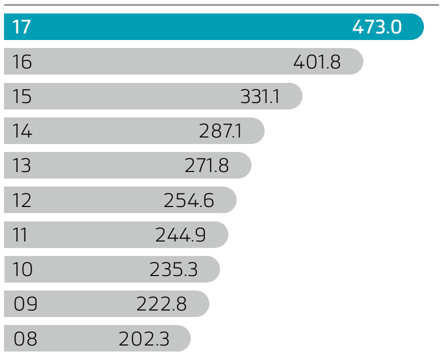
'Our vital role in the global standards community is as strong as ever it has been'

Financial highlights

Underlying revenue

£473.0m

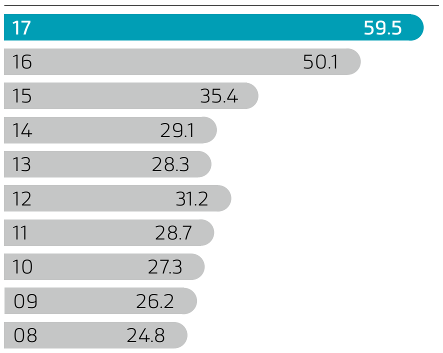
+18%



Underlying operating profit

£59.5m

+19%



‘As we begin our 117th year, the Board is confident that 2018 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’

There were no changes to the Board of Directors during 2017. Alicja Lesniak, Non-Executive Director and Chairman of the Social Responsibility Committee, will retire at the end of March 2018. The Board is very grateful to her for her distinguished service to BSI.

Each year my role presents me with opportunities to work with BSI people everywhere, and 2017 was no exception. Always I am struck by their deep knowledge, energy, integrity and infectious enthusiasm for what BSI does. 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.

As we begin our 117th year, the Board is confident that 2018 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.

Sir David Brown
Chairman
22 March 2018

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.

Summary
For over a century we at BSI have worked in partnership with our clients to ensure that they develop a relationship of trust with their stakeholders, so that their businesses become more resilient and stand the test of time. Over time, they come to trust us to support them as their businesses progress. Trust is at the heart of BSI, and the reason that we continue to demonstrate our own resilience. Our reputation and brand recognize this.

As in prior years, 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. We are able to serve our clients from this geographical coverage across each of our business streams and continue to specialize on chosen industry sectors and domains where we are establishing ourselves as thought leaders and have a deservedly strong reputation. We have a specialized product and service offering which combines our business streams of Knowledge, Assurance and Compliance to deliver value to our clients.

Two 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 blocks of the strategy that we have been establishing and implementing over recent years. The success of this focus can again be seen in the strong financial results that we have delivered in 2017. This has enabled us to continue to invest strongly in the business while fine-tuning our strategy to take advantage of the many opportunities open to BSI and provides a solid base for our own long-term development. Organizational Resilience remains the cornerstone of our strategy, not only internally, to ensure that BSI itself remains a resilient business, as it has done throughout its 116-year history, but also as we continue to help our clients advance their own Operational, Information and Supply Chain Resilience.

I wrote last year that 2016 was unprecedented in terms of global events. 2017 was a less volatile year, in the sense that there were fewer economic, political and social shocks to the world order. However, the events of 2016 continued to leave their legacy of uncertainty across the business world, and little of this uncertainty was resolved satisfactorily during 2017. First and foremost, for BSI, is the continued lack of certainty over the conditions under which the UK will leave the European Union in 2019.

'BSI once again demonstrated its financial resilience to record the highest levels of revenue and profit in our history'

We remain optimistic that BSI will 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 (ESO), such as CEN and CENELEC. These organizations are independent of the EU, and we believe that it is important that UK Notified Bodies, such as BSI, maintain their important conformity assessment role to ensure ongoing access to UK and European markets, utilizing the proven expertise that currently exists.

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. For example, we are in the process of establishing a Notified Body in the Netherlands and our International Projects division, which has, historically, been the recipient of EU funding for much of its work, has opened an office in Paris.

Our objective is to provide continuity of service to our multiple stakeholders during and after the Brexit transition process.

Notwithstanding the fluctuations in currency, commodity and stock markets in 2017 and the ever-present risks that accompany the effect of terrorism, social migration and fears of 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 and Japan, some of our most important trading markets outside the UK.

In 2017, BSI's Assurance stream has grown faster than the many of its listed and private competitors in the Testing, Inspection and Certification (TIC) sector, although some of these competitors reported increased confidence towards the end of 2017 along with the recovery of oil and gas prices. BSI is not overexposed in the oil and gas sector and is only materially present in the Certification part of TIC. We complement our strong product and service lines in this area with those from our Knowledge and Compliance business streams in an increasingly balanced portfolio so, although comparisons with these competitors are only partial, we are not entirely immune to the market forces which affect their performance. Throughout 2017, 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.

Given all of these issues, 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 our history. Revenue for the year was £473.0m, an increase of 18% on the £401.8m reported in 2016. This increase can be subdivided into 10% organic growth, 5% inorganic growth from the annualization of the results of our 2016 acquisitions and a single month of trading from our 2017 acquisition, and 3% 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 16% at constant exchange rates.

'Our objective is to provide continuity of service to our multiple stakeholders during and after the Brexit transition process'

This compares favourably to the equivalent growth reported in 2016, which was only 1%, with the improvement being partly a consequence of increased investment in our sales and marketing engine. Many of our sales orders translate into revenue very quickly but others, such as our Assurance business stream in particular, 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 fully its retained profits back into the business. In recent years, in particular, we have increased our investment programme and the benefits of these internal investments and acquisitions are very apparent in our subsequent profitable growth. Once again in 2017 they have had the effect of leveraging our strong revenue performance into even greater profit growth. Underlying operating profit was £59.5m in 2017, 19% higher than the £50.1m reported in 2016. This growth can be split into 16% organic, 2% inorganic and 1% exchange. UOP margin increased slightly from 12.5% in 2016 to 12.6% in 2017.

Structure

Day to day, our business in 2017 was managed through a strong matrix structure with three global business streams, Knowledge, Assurance and Compliance, being driven through 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. 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. Our reporting structure remained unchanged from 2016.

Chief Executive's review continued

Structure continued

Our focus remains on developing our portfolio of products and services, and delivering this to our clients across our four dimensions of geography, business stream, sector and domain. All of our products and services support the concept of Organizational Resilience and split neatly into its supporting domains of Operational, Information and Supply Chain Resilience. We have made further good progress in defining these domains in 2017 and have experienced high levels of interest from executive management of our current and prospective clients as we have explained the benefits of this approach to them. We will continue to invest in strengthening our portfolio of products and services through dedicated management in these focus areas. Likewise, we enjoy strong market positions in our focus sectors of Healthcare, Food, the Built Environment and Aerospace and Automotive, and work hard to ensure that we leverage these positions for the benefit of our clients.

A resilient business must continue to be agile and proactive in order to ensure its own relevance and long-term stability. In late 2017 I announced an internal restructure of BSI, which will become effective by mid-2018. In this new management structure, we will change from our primary focus of regional reporting, which readers will see for the final time in this Annual Report, to one based on three global business streams of Knowledge, Assurance and Professional Services, which will form the primary focus of our reporting from the 2018 Annual Report. The global Directors of these streams will join the Group Executive Committee, replacing regional roles, and the co-ordination of the three streams with our chosen industry sectors and domains will be ensured by the appointment of a new Group Commercial Director, who will also join the Group Executive Committee. I am confident that this new structure will increasingly deliver integrated global solutions to our clients. At the same time, our local country teams will continue to provide expert support for small and medium-sized enterprises (SMEs) in each territory. I look forward to reporting on the progress of this transition in next year's Annual Report.

Investments

In recent years we have prioritized investment in our IT systems and our infrastructure as many aspects of our business undergo a process of digitalization and we rely more heavily on online contact with our clients. This trend continued during 2017, with further developments across all three of our business streams aimed at enhancing the experience of our clients as they interact with us, our employees as they go about their work, and our processes as we optimize and standardize these wherever possible, with a view to support our business as we expect it to be into the future.

We have integrated all of these system and process development projects into a single Business Transformation programme which fully supports our business strategy. Each project has a member of the Group Executive as sponsor and the overall programme is managed by a steering committee drawn from the Group Executive and experts from our information technology team. This approach co-ordinates the development of the projects to ensure that they lead to a single solution that will support our business as it continues to grow. We expect the increased level of investment required to deliver the Business Transformation project to continue throughout 2018 and 2019 before returning to more normal levels in 2020

'Our strategy of developing our business geographically, by business stream, by sector and by domain, provides a strong natural hedge against most economic, political and social issues that can create uncertainty in a global trading environment, and so we approach 2018 with confidence'

and beyond. During 2017, the focus was on completing the implementation of the latest version of our Client Relationship Management software, the start of our finance transformation project and improvements to our client portal and Medical Devices' operations support. Several other projects have been specified and will commence implementation in 2018.

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 seven acquisitions in total in 2015 and 2016 in the Professional Services arena. This process was deliberately slowed during 2017 as we integrated these businesses and ensured that they developed the infrastructure necessary to prosper with BSI's values and global network. This combined business of Environmental Health and Safety (EHS) Consultancy in the US and Cyber Security and Information Resilience (CSIR) Consultancy in Europe, developed entirely from these acquisitions, generated revenue of £65.5m in 2017 and now forms a significant proportion of our Group revenue.

However, a single acquisition was completed during 2017, at the beginning of December. This was the purchase of the Neville Clarke Group of companies. Founded in 1988, Neville Clarke has a team of 150 experts who specialize in organizational training and capacity building services, with offices in four Asia Pacific markets: Singapore, Malaysia, Indonesia and the Philippines. Neville Clarke is a well-established and highly regarded company working with both internationally recognized and local clients. The company is strongly positioned in the field of management systems and sector-specific training (Healthcare, Food, Aerospace and Automotive, Oil and Gas, and Telecommunications). They deliver problem solving and process management training (such as Kaizen and Lean Six Sigma), as well as a range of leadership, personal development and communications courses. This acquisition supports BSI's ambition to offer an extended portfolio of training services and courses with new content in soft skills, performance and ISO standard methods, as well as improved delivery of our existing capacity building programmes. It also opens up a new market for us, the Philippines, which becomes the 31st country where we have at least one office. We believe that Neville Clarke clients and employees will benefit from BSI's global product portfolio, brand and career opportunities.

People

Embedding excellence to improve business performance is at the heart of what we do at BSI and the passion and expertise of our people are of the utmost importance in the delivery of this. In 2017 we strengthened our global recruitment practices and resourcing teams, increasing the pace and quality of our hiring. We recruited over 1,100 new employees in the year, particularly in the key client-facing activities of sales and delivery to support our revenue growth, in addition to welcoming the 150 who joined with the Neville Clarke acquisition in December. As a result, on average, we had 4,333 people working for BSI, an increase of 13% over 2016. We are proud to employ a talented, diverse, global workforce which provides the expertise that brings us competitive advantage and differentiates us from our competitors. I would like to take this opportunity to thank each and every one of the BSI team for their hard work and demonstration of our core values of Integrity, Inclusivity and Continual Improvement, which guide us in everything we do. Our people are our most valuable asset and make BSI what it is today.

As BSI grows, our strategic resource planning takes on a greater importance as we strengthen our team to take on the increasing challenges facing as complex a business as ours, while ensuring our own resilience. At the core of this strategy is the recruitment, development and retention of our employees. They provide the expertise and professionalism that differentiate our products and services from those of our competitors and build the trust and confidence that convince our clients to work with us and to continue to work with us. Developing and maintaining this expertise is critical to our success. We have continued to invest in our employees' professional and career growth through leadership programmes and coaching. Our global academies developed people in standards, technical skill and professional capability, we increased the number of apprenticeships and we also launched a learning hub. Our over-riding aim is to provide development for all our employees throughout their careers, 'to be the best that they can be'.

During the year, we strengthened the focus on BSI's excellence behaviours and provided a framework for building on our inclusive, engaging, high performance culture. We completed a review of our employer brand and, as a result, are clearer about why people are motivated to work here 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. This will enable us to simplify much of what we do, identify and replicate best practice across the Group, and create a true One BSI approach to our reward and recognition packages.

Towards the end of 2017, we undertook our fifth global employee engagement survey, which showed further progress on the last survey, which was undertaken in 2015. The level of response was high at 78%, and the most positive areas of responses were 'opportunities for personal growth', 'pride in BSI as a company', 'team members supporting each other' and 'my manager supports and develops me'. We will continue to actively listen to the feedback from our employees, so that we can further enhance the positive aspects identified and seek to improve areas of concern. 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.

'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'

Clients

Once again we delivered our products and services to a growing client base and have supplied these to a record number of clients. We have worked with in excess of 86,000 clients over the past twelve months. This is an increase of 6% on 2016. Average revenue per account (ARPA) is an increasingly important key performance indicator for us in line with our business strategy of working more globally with clients, particularly in our chosen sectors, and delivering products and services to each of them from more and more of our business streams. ARPA increased from £4,600 to £5,100 during the year.

We work with clients of all sizes, from large multinational clients to small and medium-sized enterprises, in over 190 countries worldwide. They tell us that they benefit from working with BSI. In 2017, 61% of clients who were asked how likely they were to recommend our services scored us nine or ten out of ten and only 8% scored us between zero and six, giving us a high net promoter score (NPS) of +53.

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

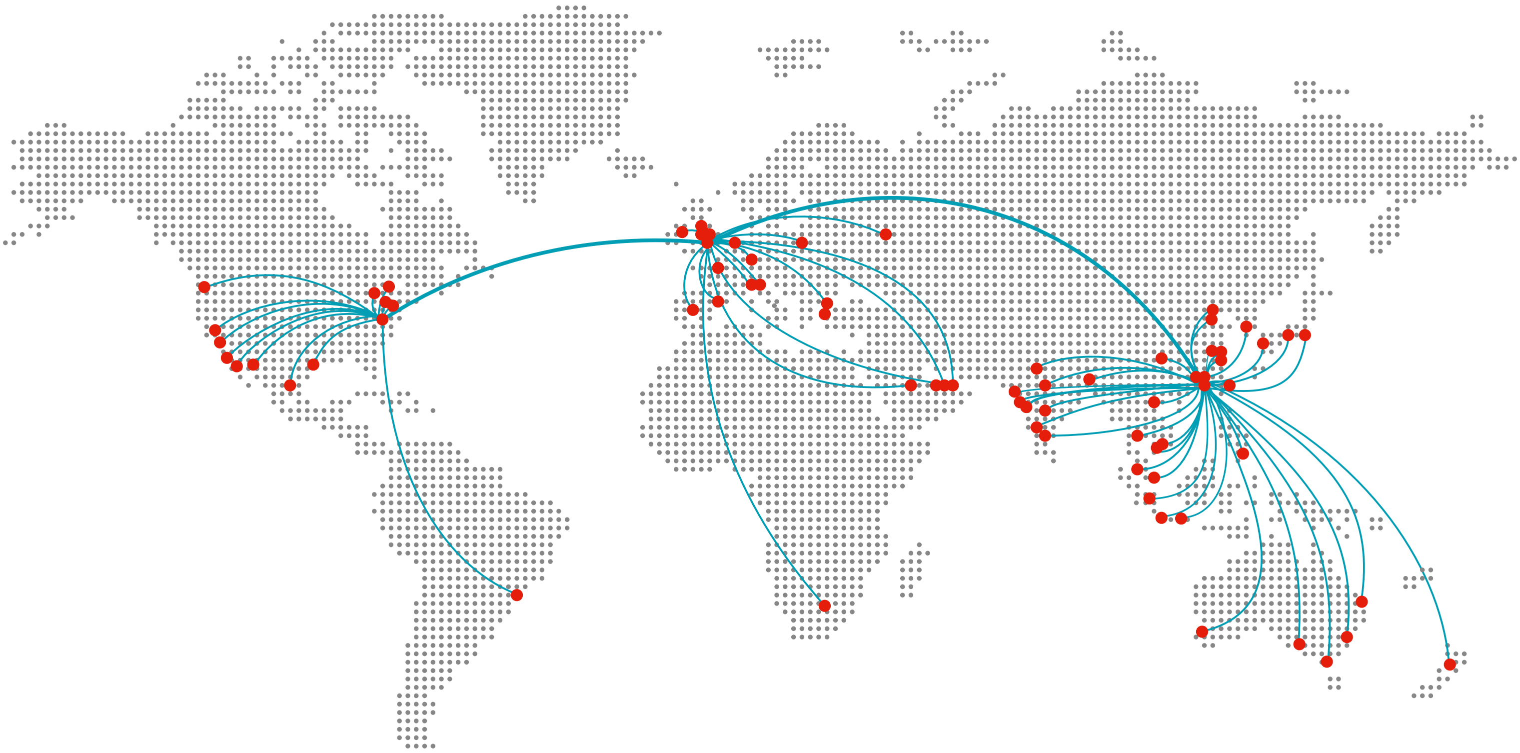
Outlook

BSI delivered record results in 2017 in what proved to be a more stable climate in the majority of our global markets. Our strategy of developing our business geographically, by business stream, by sector and by domain, provides a strong natural hedge against most economic, political and social issues that can create uncertainty in a global trading environment, and so we approach 2018 with confidence, while watching closely the developments of the international marketplace. 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 2018 and beyond.

Howard Kerr
Chief Executive
22 March 2018

Performance by geographical region

BSI is an integrated global enterprise, able to serve clients in over 190 countries from 90 offices in 31 countries in three regions across the world. We have a presence on every continent.



EMEA

Revenue
£214.7m
2016: £192.8m

Employees (including head office)
2,048
2016: 1,852

Growth
11%
(+10% at constant exchange rates)

Proportion of total revenue
17 45%
16 48%

Offices
The UK, France, Germany, Ireland, Italy, the Netherlands, Poland, Qatar, Russia, Saudi Arabia, South Africa, Spain, Turkey and the United Arab Emirates.

Our EMEA region is fairly diverse, with two large businesses in the UK and smaller businesses, managed as clusters, in Central Europe, Southern Europe and the Middle East and Africa. Despite differing trading conditions across the region, each of these businesses showed improvement on their 2016 performances, and this drove the region as a whole to annual revenue growth of 10% at constant exchange rates. This can be split into 7% organic growth and 3% inorganic growth due to the annualization effect of our 2016 acquisitions.

A significant driver in our 2017 success has been the continued transition of many of our clients across the region to the new versions of the two most significant standards to which we certify, ISO 9001 (Quality Management) and ISO 14001 (Environmental Management). The three-year transition period for these standards began in September 2015, so the business has benefited from a full year of this effect in 2017, as it did in 2016.

The UK Systems Certification business is the largest single part of the European business and this had another outstanding year, driven partly by the transition effect mentioned above. Costs were held in line with last year, while small price increases, combined with improvements in the efficiency of delivery, ensured that the profitability of the business was enhanced. Investments were made in the Food sector trading infrastructure in the year and this sector is now delivering revenue to the business. Our UK Training business performed strongly as well, although unforeseen staff turnover and the resultant use of external resource adversely affected profitability. Our Product Certification stream is headquartered in the UK and continued to grow in line with expectations, with good performance in schemes aimed at the Built Environment sector tempered slightly by some weakness in the Electrical and Gas and Services schemes. Our Product Certification Internet of Things laboratory was opened in December 2017, offering diversification to our product range. This has been well received by our clients, with several already working towards certification. As Product Certification globalizes in line with its strategic initiatives and other BSI units reach maturity, business previously treated as direct exports from the UK is transferred offshore to be managed locally. This process continued successfully in the year. Our Medical Devices stream is treated as a global business already, but the revenue delivered in the EMEA region increased significantly in 2017, although this did lead to pressures in resourcing towards the end of the year, which are currently being resolved.

Outside the UK the business is run through three clusters, Central Europe, Southern Europe and the Middle East and Africa. Our Central Europe cluster, comprising Germany, the Netherlands, Poland and Russia, grew its revenue by 19% at constant exchange rates. Germany forms one of the largest parts of this cluster, and has experienced some trading difficulties in the recent past. Its recovery continued in 2017, with improvements both at revenue and profit levels. The Netherlands continued its recent strong performance, with revenue growth over 20% at constant exchange rates. It also successfully introduced our Product Certification portfolio of products during the year. Poland and Russia also contributed positively to the cluster's performance and the overall result.

Our Southern Europe cluster, comprising Italy, Spain, France and Turkey, was one of the Group's standout performers in 2017, with constant exchange rate revenue growth of 24% leveraging enhanced profitability. The resilience of this business, despite some difficult economic, social and political issues experienced by the region, is underpinned by its flexibility and diversification across the portfolio of business streams offered by BSI, and the key account wins that have resulted from this process.

The strongest performer in our Middle East and Africa cluster has been our South African Systems Certification and Training business. This was acquired in early 2015 and continues to be a focus for investment. Revenue delivered by this unit increased by over 50% in 2017, albeit from a low base, but this again demonstrates the demand for the BSI portfolio of products and services across the world. The Middle Eastern part of this cluster performed admirably in view of the continued regional malaise due to low oil prices, and is well positioned to recover as the cycle becomes more favourable. Overall our Middle East and Africa cluster grew by 8% at constant exchange rates.

Our EMEA Consultancy business was acquired in 2016 and has been integrated to form the EMEA Cyber Security and Information Resilience (CSIR) business during 2017. It grew by 81% at constant exchange rates in 2017, although the majority of this was due to the twelve months' revenue we enjoyed in 2017. This business found trading difficult during the year due to the hiatus in UK Government spending during the 2017 general election and a reduction in eForensics work in line with general market trends. Management changes were made in December 2017, as well as a further investment in sales resource, and a recovery is expected in 2018.

During the year we launched and rolled out our Assurance Portal, which offers a direct link between BSI and our Assurance clients. This has proved to be a differentiator, winning us new business in key accounts and protecting some marginal business. This, and our continued Customer First initiative, in which every UK employee, whether client facing or not, receives training in client service standards, led to our highest ever net promoter score (NPS) for the UK Assurance business as a whole. The EMEA social responsibility programme is now in place, with leadership assigned both at regional and country level. Benefits are being felt by the target communities, and BSI employees are reacting very positively to this important initiative.

Our EMEA region also includes results from the EMEA part of our Knowledge business stream, which is managed separately to the EMEA Assurance and Compliance business. EMEA constitutes the vast majority of our Knowledge stream, details of whose global performance may be read on page 26 of this report. At constant exchange rates our EMEA Knowledge business reported revenue growth of 2% in 2017, while our Assurance and Compliance business grew by 16%, making 11% for our region as a whole.

Business review continued

Americas

Revenue
£151.9m
2016: £117.9m

Employees
933
2016: 766

Growth
29%
(+25% at constant exchange rates)

Proportion of total revenue
17 32%
16 29%

Offices
The US, Brazil, Canada and Mexico.

Trading conditions in the Americas in 2017 were generally better than those experienced in 2016 and the region performed very well in the year, reporting constant exchange rate revenue growth of 25%, of which 12% was organic and the other 13% resulted from the annualization of the results of the three 2016 Environmental Health and Safety (EHS) Consultancy acquisitions. Our operations continued to improve their efficiency, so profit margins increased during 2017 as well. Also encouraging was the growth in new sales orders of 38%, of which 18% was organic and 20% inorganic. These translate into revenue over time and augur well for the continuation of the profitable growth trajectory of recent years.

Our US and Canada Assurance business benefited as elsewhere in the Group, from the transition to the new versions of ISO 9001 (Quality Management) and ISO 14001 (Environmental Management). It also consolidated its leadership in the Healthcare sector with ISO 13485 (Quality Management, Medical Devices) and readiness for the Medical Device Single Audit Programme (MDSAP). We also saw improved uptake for our Enhanced Assessment services, which integrate training and software solutions into our Assurance offering. Our Training stream benefited also from the transition process, although this slowed towards the end of the year as we approach the deadline for transition of September 2018. Our Connected Learning Live delivery channel, in particular, grew strongly.

Our US Consultancy business, acquired during 2015 and 2016, now forms the majority of the Group's Compliance business stream, and is already a significant contributor to regional and Group revenue and profit. We now have nine offices across the US delivering EHS Consultancy services. Good progress was made in the selective integration of these businesses during 2017, with significant investment in IT systems and standardized best practice in operations wherever possible. We now have a significant nationwide Consultancy business from which we can leverage this best practice where appropriate, while allowing each business to harness its own expertise. It is noticeable that each of the acquired businesses has strengths in particular sectors, such as the BSI focus sectors of Healthcare and the Built Environment, as well as their own strengths in Oil and Gas and Technology. These play to strengths in the wider BSI business and provide important new product lines for our wider Organizational Resilience offering. The West Coast business faced challenges in 2017, with material client contractions for budgetary reasons early in 2017, and some resourcing problems, but organic revenue growth was achieved at improved profit margins. The East Coast business, in its first full year with BSI, drove the expected accretive growth to BSI performance. Although there were no further acquisitions in 2017, BSI continues to view the US as an excellent market for further organic and inorganic investment.

Outside the US and Canada, we have material businesses in Mexico and Brazil, which did not benefit directly from the same economic strength enjoyed by the US and Canada throughout 2017. Under these circumstances, they performed very creditably with double-digit revenue growth at constant exchange rates and enhanced profitability. From our Mexican office we continued to expand our presence in Latin America, targeting premium quality assurance services in the carefully selected markets of Colombia, Costa Rica and Chile, particularly in Systems Certification and across the Healthcare sector, both areas of strength for us. Our business in Brazil continued to demonstrate its resilience despite the fact that the country is in the process of recovering from the recent economic recession and political instability. New sales orders grew faster than revenue, which is always a good sign, and profit increased from 2016 levels.

The Americas has already started its journey towards a new business stream and sector focused management structure, emphasizing alignment and collaboration between businesses, particularly in the area of operations, where, in the Assurance business, resource is allocated to jobs on a regional basis, with the record number of days delivered in 2017 providing testimony to its success. The integration of the Consultancy businesses under a single management structure during 2017 is expected to demonstrate similar success in 2018 and beyond. This focus has already made some early wins across both sides of the business with major clients in key markets. We continue to learn and improve our approach as new opportunities emerge.

Asia Pacific

Revenue
£106.4m
2016: £91.1m

Employees
1,352
2016: 1,217

Growth
17%
(+13% at constant exchange rates)

Proportion of total revenue
17 23%
16 23%

Offices
China (including Hong Kong), Australia, India, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

By the end of 2017 we had offices in thirteen countries in the Asia Pacific region, and these, again, demonstrated their importance to BSI with a strong performance in terms of both revenue and profit growth. At constant exchange rates, revenue grew by 13% on 2016, of which a very small proportion was inorganic due to our acquisition of the Neville Clarke Group of companies late in the year. As in 2016, this was helped by the transition of our clients to the new versions of ISO 9001 (Quality Management) and ISO 14001 (Environmental Management). As always, the region had a slow start to the year, caused by the slowdown in business in much of the Asia Pacific region due to the Chinese New Year celebrations. Although this effect cannot be mitigated entirely, our Business Transformation project has continued to improve our efficiency and our break-even point in the region is now seven months earlier than it was in 2014. This has led to a far better balanced business across the region and fewer resource issues in peak times. A further success during the year was the increase in the level of new sales orders, which grew organically by 26% at constant exchange rates compared to last year. This level of sales orders will provide a strong impetus for future growth.

One of the highlights of 2017 was the acquisition of the Neville Clarke Group of companies at the beginning of December. This was the first acquisition in the region since 2013, when we completed the acquisition of NCSI in Australia. Founded in 1988, Neville Clarke has a team of 150 experts who specialize in organizational training and capacity building services, with offices in Singapore, Malaysia, Indonesia and the Philippines. It is a well-established and highly regarded business working with both internationally recognized and local clients, well positioned in many of BSI's focus sectors, and will complement our regional offering. The office in the Philippines is the thirteenth country in which we have a permanent presence in Asia Pacific, and the thirty-first for BSI globally. In the three countries where both BSI and Neville Clarke are present, we will integrate our two businesses to ensure a single face to the marketplace.

Our Asia Pacific region now comprises three large businesses, in China, Japan and Australia and New Zealand, three medium-sized businesses in Taiwan, India and Korea and the ASEAN cluster of six countries, including the new Philippines office. Of the large companies, China and Japan continued their recent strong, double-digit revenue growth and enhanced their profitability during the year. Both are benefiting from the expanded BSI portfolio of products and services and sector focus. Australia had a slower year, with some sales resourcing issues in the early part of 2017 that had implications throughout the year. Taiwan and India continued their steady revenue and profit growth. Taiwan was the first country to launch BS 8001 (Circular Economy) in partnership with the ECOVE Environment Corporation. India, in particular, had a very strong year and secured some contracts for capacity building and self-discovery with major organizations in the financial services sector in the Organizational Resilience arena. In the past, we have reported problems in our South Korean business due to management changes and client and staff attrition. It is pleasing to report a small recovery in this country in 2017, which has developed as the year progressed. ASEAN remains our fastest growing region, and the infrastructure of this cluster of businesses was strengthened by the creation of an ASEAN management hub during 2017, to provide a firm base for further growth in 2018 and beyond, particularly as the Neville Clarke acquisition has increased the scale and complexity of this business.

Asia Pacific is the driving force behind our progress in the Food sector. The BSI focus on this sector is led from our Global Food Centre of Excellence in Sydney, Australia, and provides the guidance as this important sector develops its presence both in EMEA and the Americas. Within the region, we continued our investment in this sector with the introduction of sector specialists and additional resource capacity across Asia Pacific, and now have full regional coverage in this important area. We continued to expand our coverage in the other focus sectors of Healthcare, Built Environment and Aerospace and Automotive. In particular, we achieved successes in Built Environment, with partnerships and contracts with some of the largest construction and property development companies in Hong Kong, China and Australia in the area of Building Information Modelling (BIM).

Performance by business stream

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

Knowledge

Revenue
£60.7m
2016: £59.4m

Growth
2%
(+2% at constant exchange rates)

Proportion of total revenue
17 13%
16 15%

Our Knowledge Solutions business reported another year of growth, although the constant exchange rate revenue increase of 2% in a mature market was lower than in the past few years. It continued to deliver its strategy of providing smart content and knowledge solutions to support its clients whenever their requirement for standards and compliance related information arises. The focus of the business remains innovation, as we attempt to stay ahead of this requirement and respond to market changes.

Our document sales recorded a small decline in revenue compared to 2016 as anticipated as sales from the 2015 revisions of ISO 9001 (Quality Management) and ISO 14001 (Environmental Management) declined. Over 75% of our document sales are now delivered digitally through our eShop website. A major re-launch of this shop is planned for mid-2018, which will enhance the link from the shop to our other offerings, allow better engagement with clients and consolidate our digital and web footprint.

Our subscription revenue increased by almost 8% in 2017. Our flagship British Standards Online (BSOL) continues to deliver strong sales to new clients in the UK and internationally, as well as market-leading renewal rates. Compliance Navigator, our new generation knowledge tool which helps medical device companies manage their regulatory, legal and standards compliance requirements, gained good traction, with the second half of the year showing increasing sales momentum and pleasing renewal rates.

Our International Products Consultancy business had another strong year, with a large increase in new sales orders, which will be funded both by the European Union and an increasingly large pool of other, diverse, funding bodies. Significant projects, delivering improvements in quality infrastructure, were won in Morocco, Tanzania, Guatemala and Georgia. Our Standards Solutions business published an increased volume of funded Publicly Available Specifications (PAS) and private standards as well as delivering wider consulting solutions.

Our focus on innovation saw the launch of our Knowledge Labs initiative to support the rapid generation, prototyping and testing of ideas and potential products. In partnership with RIBA Enterprises we completed a successful pilot to develop a digital identifier and associated registry agency for the Built Environment industry. We hope to launch this business in 2018 and believe it will put us at the centre of manufacturers' global Built Environment product identification, information management and compliance declaration. We are exploring the agile development of standards, allowing them to be developed using a digital, collaborative, flexible and iterative process.

In addition, we acquired and re-launched the Hypercat Internet of Things (IoT) community, which brings together IoT buyers and suppliers to create best practice, shape new opportunities and accelerate the IoT market, an area of increasing importance for BSI as a whole across a breadth of different sectors. We continued to invest heavily in our systems and infrastructure, and completed the digitalization of our content during the year. All our published content can now be discovered in a flexible digital format, which opens up the range of uses and product offerings we can develop. This means that we can focus on our clients' needs and expectations, and meet these, both as a standards developer and as a knowledge solutions provider. We are looking to expand these businesses as we develop our Global Standards Organization (GSO) solution, in line with our strategic initiative.

Our continued growth demonstrates the trust that our clients place in BSI and we remain a partner to them as they enhance their own resilience. We are expanding our range of products and innovation partnerships and we expect 2018 to be another year of growth for our Knowledge Solutions business.

Assurance

Revenue
£337.7m
2016: £295.5m*

Growth
14%
(+12% at constant exchange rates)

Proportion of total revenue
17 71%
16 73%

* restated. See page 28.

Systems Certification

Our Systems Certification business stream reported constant exchange rate growth of 8% in 2017. This is the highest rate achieved in recent years and due in part to the heavy investment that we have made in order to be able to accompany our clients effectively on their journey to upgrade to the new versions of ISO 9001 (Quality Management) and ISO 14001 (Environmental Management). Further improvements in process optimization ensured that this growth was profitable. Geographically we showed strong growth in Southern Europe, the Middle East and Africa, China and ASEAN, while Germany, Poland, South Korea and Brazil experienced more challenging years.

From a product point of view, there have been good revenue increases from our information security and business continuity offerings, which are key components in our overall Organizational Resilience portfolio. Linked to this was the re-launch of BS 10012 (Personal Information Management) which is closely aligned with the forthcoming General Data Protection Regulations (GDPR).

One area of great strength in 2017 was the booking of new sales orders, which increased by 20% over 2016. These sales orders give rise to revenue which is then delivered over a number of years, so this indicator is a good sign of the longer-term health of the business stream. Over recent years, we have invested heavily in the sales and marketing engine of this business and it is good to see this bearing fruit, which will be harvested in 2018 and beyond. As part of this effort, we launched the BSI Assurance Portal during the year. This gives our clients the ability to manage their certification activities online and benchmark their performance. The portal has been well received in the market and will be rolled out further in 2018.

In line with BSI's strategic initiatives, we have increased our focus on key sectors. Our progress in Healthcare is mentioned below, but we have also made advances in our service offering in the Food and Aerospace and Automotive sectors and their respective supply chains.

Product Certification

2017 was another strong year for our Product Certification business, building on the resurgence we have seen in this business stream in recent years. Revenue growth at constant exchange rates was 12%, the third year in a row of double-digit increases. As we globalize this business in line with our strategic initiative, roughly half of the stream's revenue comes from outside the UK, a major development over recent years. In particular, we registered strong growth in the UK, Southern Europe, the Middle East and Africa and China. As part of the globalization process, in late 2016 we created a new team in Central Europe and this was a major success, particularly in the Netherlands, driven by an Information Security Scheme. India was our most challenging market.

We again saw good growth in our traditional Testing and Certification business, being accredited ahead of the market in the new personal protective equipment and gas appliances European regulations, allowing our existing clients to transition easily, and winning us new clients. We supported the Group's approach to the Built Environment sector with the Building Information Modelling (BIM) Kitemark, which has been well received by the market and has clients in seven major markets, and delivered two new product extensions in 2017.

Two major new product areas were launched in 2017. In June, we opened our Gas Capacity Laboratory, which tests and certifies masks and filters for use in poisonous environments. In December, we launched our Internet of Things laboratory to support existing and new clients as they develop connected smart products.

Training

2017 was another strong year for our Training business, with revenue growing by 14% at constant exchange rates. This was fuelled by successful market penetration into the Healthcare and Aerospace and Automotive sectors. Growth was well distributed across our businesses globally, although the US and China proved particularly strong, especially in these sectors. Other regions showing robust growth across the product portfolio were Central Europe, the Middle East and ASEAN, where we have invested strongly in team infrastructure, processes and systems. During the year we trained over 150,000 delegates, with delegate satisfaction levels increasing to 90% for tutor ratings and 86% for course ratings. We continue to experiment with new delivery formats, including web-based live training courses, which were piloted during the year.

We continued to invest heavily in new courses, and increased our portfolio by a record amount during 2017. These focused on our chosen sectors of Healthcare, Food and Aerospace and Automotive, additions to the information security and business continuity portfolios, new courses in anti-bribery and early-to-market offerings in occupational health and safety to align with the forthcoming international standard ISO 45001 (Occupational Health and Safety).

Healthcare

In 2017, our Medical Devices Systems and Product Certification stream again demonstrated very strong revenue growth, reporting 18% growth at constant exchange rates, as it did in 2016, with all regions reporting double-digit increases. In Systems Certification ISO 13485 (Quality Management) established a clear market leadership position within the Medical Device Single Audit Programme (MDSAP). The MDSAP and other schemes, including the growing Malaysian Medical Device Good Manufacturing Programme, and increased share within the Japan PMD certification programme helped to expand our global footprint.

Trading in our Medical Device Product Certification stream was also strong in 2017, although we encountered resource constraints towards the end of the year that impeded further improvements. During 2017 we embarked upon an unprecedented number of designation applications in this arena, to extend scope and geographical coverage. The focus is to ensure that we are in the first tranche of EU Notified Bodies designated under the Medical Device Regulation (MDR) and In-vitro Diagnostic Regulation (IVDR).

In 2017, in line with our sector focus strategy, we recruited an experienced Managing Director for our global Healthcare business, to leverage the strong position we enjoy in Medical Devices into other areas of the Healthcare sector, such as pharmaceuticals and hospital services.

Compliance

Revenue

£74.6m

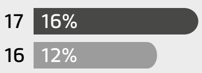
2016: £46.9m*

Growth

59%

(+55% at constant exchange rates)

Proportion of total revenue



* restated. See page 28.

Our Compliance business stream in its current form has grown significantly over the past three years predominantly by acquisition. It now comprises two Consultancy businesses, one on either side of the Atlantic Ocean, and a Supply Chain Solutions business, which itself comprises consultancy, verification and solutions divisions. Overall this business grew by 55% during 2017 at constant exchange rates, which can be split into 11% organic and 44% inorganic growth from the annualization of the 2016 acquisitions.

Consultancy

In the US, we now have a strong Environmental Health and Safety (EHS) Consultancy business, which operates nationwide out of nine offices. Our West Coast business, built out of our 2015 acquisitions, experienced some challenges early in the year, when some sizeable clients scaled back their purchases for budgetary reasons and the business also experienced some resourcing constraints, but it bounced back later in the year, helped by the recovery in oil and gas prices, to deliver 6% organic growth at constant exchange rates at improved profit margins. Our East Coast business, built out of our three 2016 acquisitions, enjoyed its first full year as a member of the BSI Group and generated broadly an expected level of revenue and profit. Our Enhanced Consulting model, integrating our Consultancy offering with software tools, gained traction in 2017 as our clients saw the benefits of this integrated approach. The various acquired businesses complement each other well, with each providing strengths in different industry sectors. They contribute well to the One BSI offering of the Group as a whole. We are working to integrate these businesses, where appropriate, to leverage best practice and create a strong platform for further organic growth, while ensuring that they continue to harness their own expertise.

During 2017 in EMEA, we focused on the introduction and consolidation of the two Cyber Security and Information Resilience (CSIR) businesses that we acquired in 2016. Now fully integrated into the BSI brand, portfolio and management structure, this business trades as BSI CSIR. The Centre of Excellence activities are located in Dublin, Ireland, and the UK business has been incorporated into our Milton Keynes office, increasing access to our wider client base. Additionally, our cyber laboratory activities have been aligned with our Internet of Things initiative, combining expertise with the Product Certification stream. Information management services have been enhanced through the market-driven response to the General Data Protection Regulation (GDPR), an area where CSIR possesses significant experience, expertise and capability. From a trading point of view, 2017 was not without its challenges for this business. The hiatus in UK Government spending during the 2017 general election and a reduction in eForensics work in line with general market trends adversely affected the results, but some initiatives were instigated later in the year to reverse this trend in 2018.

Supply Chain

Our Supply Chain Solutions (SCS) business continued to build out its global blue chip client listing in 2018, with 25% constant exchange rate revenue growth, albeit from a low base. The Consulting and Verification parts of this business drove the majority of this growth, although our software solutions also continued to gain traction in the market.

Restatement

In 2016 we reported that our Entropy compliance software had been further integrated into the broader BSI business, with two strategic approaches used to extend value to our clients, enhanced assessment and enhanced consultancy. As a result, 2017 Entropy revenue has now been allocated to our Certification and Consultancy business streams accordingly, and 2016 comparatives have been restated in our segmental analysis.

innovative

Standards create the right conditions to enable innovation

Innovation is about adaptability, forward thinking and developing new practices and ideas that contribute to significant shifts in your industry. We are at the forefront of international standards and the embedded knowledge that we publish will help you to improve your performance, manage your risks and grow. BSI can help you be more innovative.

Watch our video on innovation
bsigroup.com/innovative

Saviour Alfino
Project Manager – Smart Cities Strategy

Principal risks and uncertainties

Effective risk management is an inherent part of the business process

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 and safety and environmental management. The Board further 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 risks in the business, based on ISO 31000 (Risk Management). Risks identified are logged on risk registers within all business streams, functions, countries and 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. 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 and 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.

What we did in 2017

Throughout 2017 we have continued to embed our enhanced process through a programme of risk workshops, training and risk reviews. Group Internal Audit and Risk now conducts all internal audits on a risk basis, and the department has been expanded to incorporate additional knowledge and qualifications in information technology and cyber security risk.

We have been recertified to ISO 27001 (Information Security) for our headquarters in Chiswick, UK, and our Cyber Security and Information Resilience businesses in 2017. We have introduced mandatory annual training on information security globally throughout BSI for all employees, and we have embarked on the expansion of ISO 27001 compliance to our other locations. We have also been recertified to ISO 14001 (Environmental Management) and OHSAS 18001 (Occupational Health and Safety Management) for our Chiswick office during 2017. 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 has been reviewed and updated, and we have mandatory annual training throughout BSI for all employees.

What we will do in 2018

Our Strategic Risk Register and subsidiary risk registers will be updated to reflect the latest Group Strategic Plan initiatives and the forthcoming internal restructure, and we will continue to roll out our programme of risk workshops, training and risk reviews to embed further enhanced risk management globally.

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

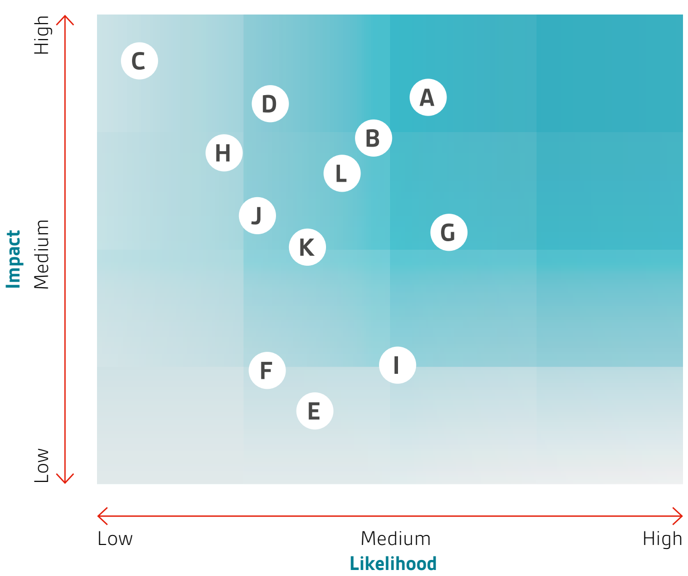
We will broaden the scope of certification for our Health, Safety and Environmental Management Systems from our head office throughout the UK and will enhance our resilience with respect to Business Continuity and Crisis Management.

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.

Changes to principal risks during 2017

We have reviewed and updated our Principal Risk Register in 2017, with the latest version shown in this report. No risks have been dropped from the Principal Risk Register, although some have been consolidated. 2017's 'Global Economic Environment' and 'Acquisitions' risks have been consolidated into a new principal risk entitled 'Change Management' and will, henceforth, be reported here.
We have added a new risk to the Principal Risk Register to cover the risk to BSI resulting from the Brexit process. This risk is seen to have increased during 2017 as uncertainty of the outcome of the negotiations remains and the deadline comes closer. The only other increase in risk levels during 2017 was to the 'information security' risk, as the global cyber threat was seen to increase during the year.



Key: No change / Increased / Decreased

Type of risk	Risk	2017 update	Mitigating actions
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.	Increased	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. We are in the process of establishing a Notified Body in the Netherlands, so that we can deliver certification decisions from within the European Union.
B. Government policy	We represent 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.	No change	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.
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 strategy that we preserve this status.	No change	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.
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.	No change	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.	No change	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.	No change	Our legal team monitors changes in legislation that may be relevant to our business. Key employees receive legal compliance training. We seek to limit our liability for claims appropriately in our standard terms of business and other contracts.
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.	No change	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.	No change	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.	No change	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.	No change	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.	No change	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.	Increased	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.

Standards review
Dr Scott Steedman CBE, Director of Standards

Strengthening the capacity of the national standards system

Our programme to engage with a new generation of standards users continues to grow.

'We have broadened our engagement and evolved our standards activities to meet the needs of the UK's future trading arrangements with the EU and the rest of the world, to enable the digital transformation of business and industry and to reinforce consumer trust in products and services'

Our focus in 2017 has been on strengthening the capacity of the national standards system to support government, industry and societal stakeholders as the pace of change accelerates around us. We have broadened our engagement and evolved our standards activities to meet the needs of the UK's future trading arrangements with the EU and the rest of the world, to enable the digital transformation of business and industry and to reinforce consumer trust in products and services.

Throughout the year, there has been an increasing level of discussion with government departments planning for Brexit. I gave evidence to several Parliamentary committees on the standards system and we ran a second live webinar to explain BSI's position with regards to our continuing membership of the European Standards Organizations, CEN and CENELEC. BSI experts were seconded into the Department for Business, Energy and Industrial Strategy (BEIS) and the Department for Exiting the EU (DExEU). We worked throughout the year with industry and consumer groups to ensure that our position reflected the public policy interest and with other national standards bodies across the 34 member countries of CEN and CENELEC to plan for the future.

In June BSI hosted the CEN-CENELEC Annual Meeting in Edinburgh, which provided an opportunity to raise the profile of standards with national, European and international stakeholders. It was the largest such meeting ever held and the first time that it had been held in the UK.

After nine months in the role of ISO Vice-President (Policy), the ISO General Assembly voted in September to renew my appointment for the 2018–2019 term. Two important achievements in 2017 were the appointment of ISO's new Secretary General and securing the General Assembly's unanimous agreement on the new policy on copyright and sales. In the IEC, we have extended UK influence through close collaboration with the national committees of France and Germany and, within BSI, a new high level Electrotechnical Standards Strategic Advisory Council (ESSAC) was launched to advise on strategy and policy matters that affect the sector and its impact across the economy.

In 2017, we took a fresh approach to involve more societal organizations in BSI's standards development and to grow BSI's Consumer and Public Interest Network (CPIN). By the end of the year, fourteen leading organizations had participated in BSI's Consumer and Public Interest Strategic Advisory Committee, providing strategic direction for consumer representation in our standards work.

In the year, we published 2,452 new or revised standards, including Publicly Available Specifications (PAS), and withdrew 1,754 standards, as part of our commitment to simplify the standards landscape for business and consumers. We opened our newly refurbished meeting centre in Chiswick and welcomed 1,238 new committee members, bringing the total to 11,871 by year end. The number of committees grew slightly to 1,919 in total, including around 1,200 technical committees, as we disbanded 67 and created 76 new committees. The UK holds the secretariat and/or the chair of 306 international and European committees in ISO, IEC, CEN and CENELEC, maintaining the strong presence in global standards development that our stakeholders expect.

Our programme to engage with a new generation of standards users continues to grow. The annual Young Professionals event attracted a record attendance, from which three delegates were sponsored to attend the 2017 IEC General Meeting in Vladivostok, Russia.

The UK-China Standards Cooperation Commission (SCC) was held in London in June. This important bilateral event brought together technical experts from China and the UK and discussed standards issues concerning graphene and reinsurance. In addition, BSI, supported by the Foreign & Commonwealth Office's Prosperity Fund, managed by the British Embassy in Beijing, worked with China's Institute of Standardization for the Nuclear Industry (ISNI) to undertake a standards alignment exercise for the UK and China on civil nuclear standards. This led to the publication of a report that outlined the application of nuclear codes and standards in the UK and China nuclear regulatory systems. The project will enable the alignment of Chinese and British standards and identify areas where UK and China could influence standards development in other countries.

There have been many highlights during the year for our standards market development teams. Our technical committees are working on around 7,000 standards at any one time, but new topics are constantly emerging. These are a few of those topics that illustrate the breadth of work in which we are engaged:

Ageing society

BSI has been leading an ISO Strategic Advisory Group (SAG) on the subject of standardization and ageing society. The SAG published its recommendations in 2017 and BSI will now lead this new technical area within ISO. The underlying principle is that we need a holistic approach to standards development for the products and services that people want in order to remain independent throughout their lives, maintaining a sense of personal value and contribution to their communities.

Occupational health and safety

In 2013, BSI secured the support of the ISO members for the well-known standard OHSAS 18001 to be used as a base document for a new ISO standard on occupational health and safety, in addition to other widely used national standards, such as Z10 in the US. The proposal sparked intense global interest but, during 2017, the BSI team successfully guided around 70 countries through the last stages of the process to produce the final draft of ISO 45001 (Occupational Health and Safety), which will be published in early 2018. An added value digital product has already been generated called BSI Essentials: 45001. This goes beyond the requirements of the standard itself, containing the final draft of 45001 and linking it to supporting guidance materials and expert commentary. BSI Essentials: 45001 has given the market early sight of the standard and will provide automatic updates, while also helping organizations of all shapes and sizes implement what will be a hugely significant publication for businesses worldwide.

Circular economy

The circular economy is a concept that challenges organizations to re-think how resources are managed to create financial, environmental and social benefits. In May 2017 we published BS 8001, the world's first standard for implementing the principles of the circular economy. The circular economy takes a whole systems perspective and BS 8001 enables organizations to map out their own systems and understand how their operations impact them. The standard explores how, by applying circular economy principles, it is possible to capitalize on cost savings, unlock new revenue streams and become more resilient to external shocks and disruption.

> 'Our technical committees are working on around 7,000 standards at any one time, but new topics are constantly emerging'

Circular economy

The world's first standard on the circular economy (BS 8001) was shortlisted for an edie Sustainability Leaders Award.

Building Information Modelling (BIM)

In recent years, the UK construction industry has worked with BSI to develop and implement a suite of internationally recognized standards supporting Building Information Modelling (BIM). These standards set out a basis for digital collaboration during the design, construction and through-life stages of any built asset, and have already had a transformational effect on the sector. With the support of the UK Government, we have created an online portal, www.bim-level2.org, which is home to all the necessary standards and implementation guidance for industry. In 2017, we published the latest PAS in the series, covering health and safety information requirements. Since April 2016, the website has received over 120,000 users, 50% from outside the UK. Nearly 137,000 copies of our BIM Level 2 standards have been downloaded since 2013, with around 25% of these from outside the UK. Three of these UK standards are currently being developed into global standards in the ISO 19650 (Organization of Information about Construction Works) series.

Standards review continued

Smart cities and the Internet of Things

2017 saw the publication of three new PAS on smart cities, developed to address some of the major barriers of using data to improve services for citizens. PAS 183 provides a decision-making framework for sharing data and information in a smart city. PAS 184 gives practical guidance on how to develop project proposals for smart city solutions, and PAS 185 provides a framework for developing a security strategy for data and information in the smart city. These new standards complement BSI's earlier work on smart cities, which is now being developed further as the basis of new ISO standards. In addition to the standards, we have been offering smart city leadership programmes and linking these to our work on the Internet of Things and the automatic resource discoverability framework standard, PAS 212.

Digital manufacturing

BSI has been working with the High Value Manufacturing Catapult, the Institute for Manufacturing, and industry stakeholders to develop a strategy for standards that would enable digital adoption by UK manufacturing supply chains. During the year, BSI was invited by Juergen Maier, CEO of Siemens UK, to work with his team as part of the UK Government-backed Made Smarter Review, which produced a number of standards related recommendations. We are now working on the first of the new standards, PAS 1085, which sets out how to consider cyber security in digitalized manufacturing supply chains, and PAS 280, which defines a framework for the delivery of digitally enabled innovative services.

Connected and Autonomous Vehicles (CAV)

In March we published a standards strategy report for the UK for Connected and Autonomous Vehicles (CAV), prepared jointly with the Innovate UK funded Transport Systems Catapult. The standards strategy highlighted the emerging standards in the area and priorities for new standards to overcome the barriers to deployment of CAV in the UK and the development of CAV technologies. One of the first new standards in this field will be PAS 1885 (Principles of Automotive Cyber Security).

Blockchain and Distributed Ledger Technology (DLT)

We commissioned a research report on standards and Blockchain, which has been widely cited since its publication. The research was based on stakeholder needs in the UK and drew on 100 academic articles and fourteen in depth interviews. The findings pointed to the need for standards in terminology, security, privacy, governance, identity and interoperability. BSI used this as the basis to build a UK stakeholder view to ensure that the work programme of the proposed new international committee matched the standards needs of the UK.

'I would like to express my appreciation to the work of the many thousands of individuals who have given their time and effort this past year to shape the consensus standards on which our economy depends'

Big data

BSI also undertook research and stakeholder workshops to develop a standards roadmap to support the effective use of data in the UK and globally. A new technical committee was established to work on four new British Standards, which aim to increase public acceptance of big data projects by describing the systems and best practices that organizations need to have in place in order to communicate the way data will be used. These include the terms and conditions of how an individual's data will be used, the roles and responsibilities of data managers and the definition of governance and ethical frameworks.

In closing, I would like, once again, to express my appreciation to the work of the many thousands of individuals who have given their time and effort this past year to shape the consensus standards on which our economy depends. 95% of their work, year on year, is on international and European standards, which make up over 85% of the national standards (BS) catalogue. Their support, through BSI, ensures that UK leadership in the international standards system continues to strengthen, increasing the productivity and competitiveness of British industry and the safety and quality of products and services on the UK market.

Dr Scott Steedman CBE
Director of Standards
22 March 2018

We help our clients to ensure that their supply chains are agile

Speed of decision making and the ability to adapt in today's ever-changing business environment are vital for any organization that wishes to thrive. External expertise and insight are crucial when you are faced with social changes, regulatory issues and other unpredictable obstacles. BSI can help you be more agile.

Watch our video on agility
bsigroup.com/agile

Courtney Foster
Supply Chain Solutions Manager

Financial review

Craig Smith FCCA, Group Finance Director

Record levels of revenue and profit

BSI remained highly cash generative and we ended the year with zero debt and significant funds in the bank.

Overview

BSI delivered strong financial results again in 2017, with record levels of revenue and profit, and increases to the cash and deposits balance and the net asset value of the balance sheet.

By comparison to 2016, which brought with it some significant economic, political and social challenges, 2017 was a far quieter year for the global trading environment. The exception to this would be the continued uncertainty in the UK market from the negotiations for the terms and conditions under which the UK will leave the European Union in March 2019. However, despite this, Sterling recovered against the US Dollar during 2017 and the UK delivered a stronger trading performance than some had feared it would at the time of the 2016 Brexit vote. Many of our other important trading markets experienced good economic growth.

BSI is fortunate in having a very broad spread of business across geographies, business streams, sectors and domains. As such, our overall results are less susceptible to shifts in macro-economic trends. In 2017, we were able to report higher levels of underlying revenue and underlying operating profit than ever before in the 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 the contributions made to the scheme by BSI during the year. We ended 2017 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 can 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 can be seen in the table on page 39.

Revenue

BSI Group revenue increased by 18% in 2017 to £473.0m. Organic revenue growth at constant exchange rates was 10%, slightly higher than the equivalent 9% reported in each of 2014, 2015 and 2016. This was supplemented by another 5% (2016: 3%) inorganic growth from the annualization of the results of our 2016 acquisitions and a single month of trading from the 1 December 2017 acquisition of the Neville Clarke Group of companies. Despite the rise in the value of Sterling across 2017, the average exchange rate of Sterling compared to our other trading currencies, fell compared to 2016, and this led to a positive currency effect of 3% (2016: 9%).

'BSI is fortunate in having a very broad spread of business across geographies, business streams, sectors and domains. As such, our overall results are less susceptible to shifts in macro-economic trends'

This overall growth meant that our underlying revenue continued its trend of increasing every year since 1999, and was at its highest level in the 116-year history of the Company.

Each of our regions and business streams reported revenue growth in 2017. EMEA grew by 11%, the Americas by 29% and Asia Pacific by 17%. Our Knowledge stream increased its revenues by 2%, Assurance by 14% and Compliance by 59%. All of our 2016 acquisitions were in the Compliance stream and the full-year results in 2017 helped the overall growth rate. The small amount of revenue from our 2017 acquisition was reported in the Assurance and Compliance streams. Further details of the performance of the regions and business streams, and their organic growth at comparable exchange rates, are given in the Business review on pages 22 to 28.

Underlying operating profit (UOP)

In recent years we have invested heavily in the infrastructure and resource of BSI, and built a stable platform for profitable growth. This was, again, delivered in 2017. Underlying operating profit increased by 19% from £50.1m in 2016 to £59.5m in 2017. UOP has more than doubled over the past three years and 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 16% (2016: 31%), our 2016 and 2017 acquisitions contributed 2% (2016: 1%) and there was an exchange difference from the change in value of Sterling between 2016 and 2017 of 1% (2016: 10%).

At an overall Group level our gross profit margin decreased from 47.8% in 2016 to 46.6% in 2017. 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 effect on overall margins. Since 2015 we have acquired several Consultancy businesses, which now account for almost 15% of our total revenue. These businesses have a naturally lower level of gross profit margin than the majority of our other streams, and their increasing proportion of the overall mix has been the major factor in the reduction in the gross profit margin percentage for the Group as a whole.

Selling, distribution and administration costs increased more slowly than revenue, by 14%, in 2017. Internal revenue and profit budget targets were again beaten in 2017, and this led to high levels of incentive payments, both annual and long term. In addition, the investments in the business to create an infrastructure to support the high levels of growth of the business in the recent past and expected in the future meant that costs increased. Depreciation and amortization increased to £11.8m (2016: £10.7m) due to the recent acquisitions and increased levels of capital expenditure. Foreign exchange losses, resulting predominantly from the repatriation of funds to the UK in line with our treasury policy, were £1.6m in 2017 (2016: £2.5m gain) as Sterling strengthened during 2017, having weakened in 2016, particularly following the Brexit referendum.

These levels of gross profit and selling, distribution and administration costs resulted in an underlying operating profit of £59.5m (2016: £50.1m) as explained above. This gives rise to an underlying operating profit margin of 12.6%, marginally higher than the 12.5% reported last year.

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 £2.9m (2016: £1.6m) have been separately reported as an exceptional item in the 2017 accounts. There were also deal costs of £0.4m relating almost entirely to the 2017 acquisition of Neville Clarke (2016: £0.8m relating to the 2016 acquisitions).

In 2016 we instigated and partially completed a refurbishment of our head office in Chiswick, UK, and showed an exceptional item of £0.4m relating to this work. This project was completed in early 2017. Much of the cost of this refurbishment will be capitalized and depreciated over the time remaining on our lease in Chiswick. However, a further £0.2m has been charged as an exceptional item in 2017.

Late in 2017 we embarked on a restructuring of BSI, whereby the primary focus of the Group will shift to three global businesses of Knowledge, Assurance and Professional Services. There will be some exceptional costs relating to this restructuring, and £0.7m has been charged in 2017. As a result of the above, the total exceptional costs in 2017 were £4.2m (2016: £2.8m). This meant that our operating profit for the year was £55.3m, an increase of 17% over the 2016 figure of £47.3m.

'In recent years we have invested heavily in the infrastructure and resource of BSI, and built a stable platform for profitable growth, which was delivered in 2017'

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 2017 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 £0.2m (2016: £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 £2.5m in 2017 (2016: £2.3m). Profit before tax increased by 17% from £45.2m in 2016 to £53.0m in 2017.

Taxation

The Group effective tax rate (ETR) on profit before tax in 2017 was 30.6% (2016: 30.5%). Eliminating the prior year adjustments arising on underprovided UK and foreign tax, the current year ETR was 27.9% compared to 29.2% last year.

Notably, this current year ETR includes the impact of the 2017 tax reforms introduced by the current US administration. These reforms have seen a drop in the applicable US federal tax rates from 35% to 21% and so a resulting deferred tax credit is reflected in the income statement.

However, we consider the ETR on UOP, which excludes financing costs and exceptional items, to be a better indicator of the tax management of the operating businesses. In 2017 the ETR on UOP decreased to 28.0% (2016: 28.6%). The mix of the differing tax rates between the countries in which we make our profit impacts the overall rate.

Balance sheet and cash flow

The net asset value of the Group increased by £37.4m or 45% in 2017, from £82.9m to £120.3m. The main contributors to this were the profit for the year of £36.8m (2016: £31.4m) and the decrease in the deficit of the UK defined benefit pension scheme of £14.1m (2016: £33.2m increase).

BSI remained highly cash generative during 2017, with cash generated from operations, before contributions to the UK defined benefit pensions scheme, of £61.3m (2016: £61.1m). Our strong cash position at the beginning of 2017, and the generation of cash during the year, ensured that we were able to fund our acquisition without recourse to external funding. £1.9m was spent on acquisitions in 2017 (2016: £29.3m) but, despite this outflow and our significant capital expenditure during the year, we ended 2017 with zero debt and £67.8m as cash and deposits (2016: £48.1m). This means that, in 2018, 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 £10.8m in 2017 (2016: £12.1m). 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

Financial review continued

'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'

Balance sheet and cash flow continued

Solutions offerings. Included in this capital expenditure figure was an investment of £0.6m in the development of new training courses (2016: £0.4m).

Debtor days increased slightly during 2017 to 61 days (2016: 60 days). This Group average depends on the geographical, business stream and industry sector mix of our revenue and the customary terms of trade 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 2017, with receivables written off amounting to £1.4m (2016: £0.7m) 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 £14.1m, or 14%, from £104.1m to £90.0m during 2017.

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 (2016: £12.5m). There was a net interest cost of £2.5m (2016: £2.3m) and operating expenses of £0.6m (2016: £0.5m) recognized in the consolidated income statement, together with a re-measurement gain of £3.7m (2016: £42.9m loss) recognized in the consolidated statement of comprehensive income, arising mainly from changes in financial assumptions.

The discount rate used when calculating the liability is determined by reference to market yields on high quality corporate bonds. The discount rate used was 2.45% compared to 2.6% in 2016. This accounted for the vast majority of the increase in the scheme liabilities. BSI seeks to be close to the mid-point in the range of possible assumptions in the valuation of the assets and liabilities of the pension fund and confirms this with its 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 £10.5m was made into the scheme in March 2017, and a further £3.0m was paid in December 2017, satisfying the Group's obligations under the schedule of contributions for the year.

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 2017 was £1.4m (2016: £1.3m).

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.

BSI continued to be highly cash generative and held cash and deposits of £67.8m at the end of 2017. This was up 41% from the equivalent figure at the end of the previous year (2016: £48.1m). During the year there was cash expenditure on acquisitions of £1.9m (2016: £29.3m), capital expenditure of £10.8m (2016: £12.1m) and a contribution to the UK defined benefit pension scheme of £13.5m (2016: £12.5m). Although the Group is debt free, it recognizes the occasional need for external funding and held bank overdraft facilities of £2.6m (2016: £2.7m), on an unsecured basis, at the end of 2017, 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 £2.8m (2016: £1.7m).

Accounting policies

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

Craig Smith FCCA
Group Finance Director
22 March 2018

Exchange rates

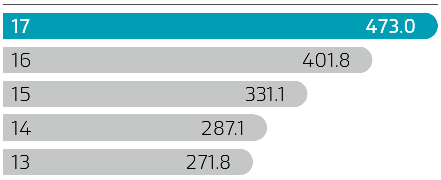
	Year end 2017	Year end 2016	**Average 2017**	Average 2016
Australian Dollar	**1.72**	1.70	**1.69**	1.80
Chinese Renminbi	**8.79**	8.52	**8.75**	8.90
Euro	**1.13**	1.17	**1.14**	1.21
Japanese Yen	**152**	143	**145**	144
US Dollar	**1.34**	1.23	**1.30**	1.33

Financial KPIs

Revenue

£473.0m

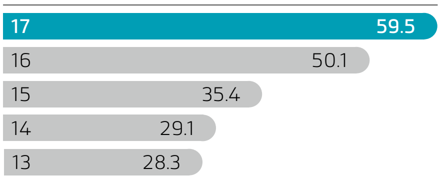
+18%



Underlying operating profit

£59.5m

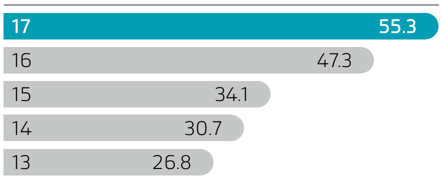
+19%



Operating profit

£55.3m

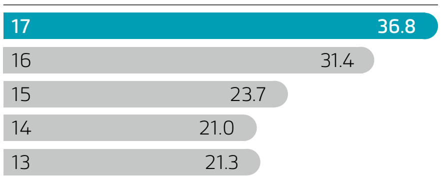
+17%



Profit for the year

£36.8m

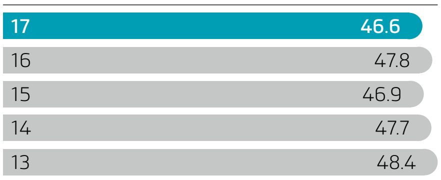
+17%



Gross profit margin

46.6%

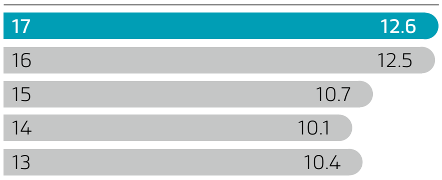
-1.2ppt



Underlying operating profit margin

12.6%

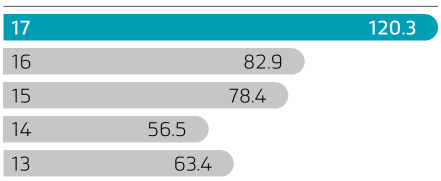
+0.1ppt



Net asset value

£120.3m

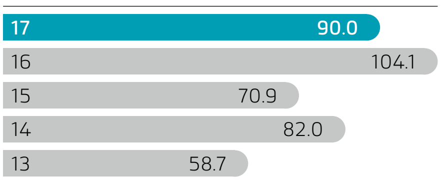
+45%



UK defined benefit pension fund deficit

£90.0m

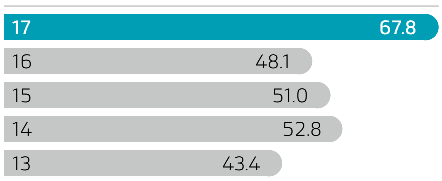
-14%



Cash and deposits

£67.8m

+41%



Social responsibility review
Alicja Lesniak, Chair of the Social Responsibility Committee

Enabling a resilient world

At BSI, we are committed to ensure 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.

'Social responsibility is a business imperative. I am really proud of the significant progress made by BSI colleagues over the last few years to further embed social responsibility in the way we do business, enabling a resilient world'

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 ensure 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.

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. During 2016, we undertook a comprehensive stakeholder engagement exercise to ensure that we continue to focus on what really matters. As a result, we added a new initiative to our strategic plan to develop our approach to SR under the banner 'Enabling a resilient world' and agreed to enhance and clarify our approach to educational outreach, diversity and inclusion and socially responsible procurement.

Our actions in 2017 have, therefore, deliberately focused on these areas, and we have dedicated extra time and resource, including the appointment of a full time Group Head of Social Responsibility and additional support for the SR Champion Network. I am pleased to share our 2017 highlights and the progress that we are making to enable a resilient world.

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), OHSAS 18001 (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.

As part of our annual review process to ensure our policies and processes are fit for purpose, we reviewed the level of compliance to these standards and have developed a plan to enhance the level of assurance in higher risk areas of our business. We updated our charitable donations policy and process, and our SR code of conduct. We also identified the need to develop a specific Group SR procurement policy to ensure the consistent application of our SR code of conduct throughout our supply chain.

We continue to ensure that our colleagues have the information they need to support the implementation of these standards, policies and processes. All employees have been asked to complete a test of understanding or take an online training course on the following policies this year: business ethics, health, safety, environment, quality and sustainability, anti-bribery and corruption, competition law, information security, SR procurement and our SR code of conduct.

Socially responsible procurement

Following a full review of our procurement policies and processes we identified the need to develop a specific Group SR procurement policy to ensure the consistent application of our SR code of conduct throughout our supply chain. From 2018, we will work with business partners we have identified as potentially higher risk to understand and assess their approach to social responsibility and help implement improvements, where required.

Our Chief Executive wrote to our suppliers to introduce our updated SR code of conduct which applies equally to our business partners as it does to ourselves. This communication included our expectations around their approach to modern slavery in line with the provisions of the Modern Slavery Act (2015). 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

We recognize that we can also encourage others to integrate SR into their businesses through the range of products and services that we offer. We have again enhanced our client offering this year. Additions include the world's first standard on the circular economy, the first international standard on sustainable procurement and an updated data protection standard to support the European General Data Protection Regulation (GDPR), the BSI Organizational Resilience index, our Human Trafficking and Supply Chain Slavery index, and new Kitemarks for functional safety, Building Information Modelling (BIM), asset management and customer service. BSI also held a leadership position in the development of ISO 45001, the first international standard for occupational health and safety, which will publish in 2018.

Our people

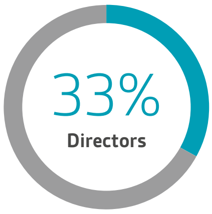
BSI is a successful and growing enterprise that values the contribution made every single day by our people. Our aim is to create a supportive culture where every person feels enabled to be the best that they can be.

We have made significant investments in upgrading our worldwide offices over the years and are increasingly investing in technology to ensure that we provide a working environment where our colleagues can reach their potential. We continue to invest in learning and development opportunities for our colleagues. In 2017, we added a new management and leadership programme to our offering in the Americas and launched online platforms to help colleagues become more targeted about their learning and development needs in our EMEA region. In addition to the more formal training, we supplement this by hosting local awareness raising events, such as an annual health fair in our US headquarters, and sharing tips and reminders in our internal newsletters. We have structured wellbeing programmes in the UK, the US and Australia, and intend to replicate best practice across our network.

Increasingly, we are offering work placements in our countries, which benefit both our employees and our local communities and support our educational outreach programme. We are looking to build on the local programmes already established in the countries in which we operate, including the UK, the US and Australia, to provide a globally consistent experience for everyone involved.

Diversity and inclusion

We are committed to creating an inclusive culture where people feel they belong and are valued. We conducted some initial research into our approach to diversity and inclusion. A deeper dive, which will, in part, be informed by the employee engagement survey results, is planned for 2018, with the view to the development of a structured, global, long-term diversity and inclusion strategy.



Percentage female

Percentage male

2016: 33% female, 67% male

Percentage female

Percentage male

2016: 19% female, 81% male

Percentage female

Percentage male

2016: 44% female, 56% male

Social responsibility review continued

Our people continued
Each year, we celebrate the success of our colleagues, and recognize those who demonstrate our values of inclusivity, integrity and continual improvement through the peer-nominated Chief Executive Awards, in addition to celebrating our achievements through local recognition schemes.

We realize that we cannot be complacent, and continually seek to engage our colleagues' views to ensure that we remain an employer of choice. In December, we undertook a global employee engagement survey, run by an independent specialist. The survey, which we undertake every two years, sought feedback on BSI's approach to leadership, how we live our values, our customer focus, social responsibility, opportunities for growth and recognition, wellbeing and team working. We had a response rate of 78% and will be analysing the data in detail, and taking action to respond to the feedback from our people, during 2018.

We aim to create a workforce that reflects the local diversity of the countries in which we operate through our recruitment process. Appointments are made on merit, seeking increasingly to take the benefits of diversity into consideration. The percentage of female employees in the total workforce increased slightly during 2017. Our senior management team comprises 28 different nationalities. The percentage of females in this team increased by five percentage points from 2016 levels, and is now at its highest level since disclosure of these statistics began. The composition of our Board of Directors was unchanged in 2017, and comprises six male and three female Directors. Diversity and inclusion will continue to be a major focus for us in 2018.

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 each year and to share knowledge and skills with their local communities. Colleagues across the globe have taken up this opportunity to give something back, with increasing numbers volunteering their time to inspire young minds about science, technology, engineering and maths (STEM) both at our sites and in classrooms.

In the UK we hosted insight days for students at our testing laboratories in Hemel Hempstead and our office in Chiswick. We have also delivered guest lectures to college and university students in a number of our countries and, in some instances, developed an ongoing relationship. For example, in Hong Kong, we recently agreed to deliver regular lectures to students of the Technological and Higher Education Institute (THEi) as a voluntary programme. Colleagues from our Supply Chain Solutions business delivered SR talks to students in both our EMEA and Americas regions.

We maintain an active policy of charitable giving, and have supported a number of colleagues' fundraising initiatives across the Group. Our colleagues have chosen to take part in a variety of activities and challenges to raise funds for charitable causes, including cancer, clean water, education, deaf and disabled people, heart disease, mental health, orphaned children and wildlife conservation. We have also organized a number of events to collect second-hand items such as books, clothing, dolls and electronic equipment to donate to charitable causes and, in Indonesia, colleagues joined forces with local business to organize a blood donation event. Additionally, our colleagues in the Americas have actively supported the disaster relief efforts following Hurricane Harvey, Hurricane Irma and the September 2017 serious earthquake in Mexico.

Over 550 colleagues took part in our annual Walk for Water Challenge to support our global charity partner WaterAid. In 2017, our fundraising supported WaterAid's Clean Water for Schools Programme in East Africa.

Our environment
We recognize the importance of good environmental stewardship and aim to minimize our negative impacts and improve our performance. Adopting the principles of good environmental management across our sites helps us in this regard. During 2017, we transitioned to the 2015 version of ISO 14001 (Environmental Management) in our

This year, our Walk for Water Challenge supported WaterAid's 'Clean water for schools' programme in East Africa. Photo credit: Behailu Shiferaw. Students at Liben Gamo Primary School, Ethiopia.

Students from across the country went behind the scenes at BSI's Kitemark House in Hemel Hempstead, UK.

Corporate Centre and Knowledge Solutions business at our headquarters in Chiswick, UK. This new version of the standard requires organizations to demonstrate that they improve their environmental 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. Our latest refurbishment project in Chiswick, UK, completed in 2017 and we achieved an SKA Silver rating for sustainable fit-outs. As we move offices, it is equally important to ensure that we minimize our negative impacts and we will be developing specific environmental guidance on the decommissioning of sites in 2018.

BSI employees and their families spent a day planting trees at Ricoh's tree planting event in Singapore, which aimed to raise environmental awareness and protect our environment.

Educational outreach

We have put structure and focus around existing local education programmes. Our global educational outreach programme is now structured around three pillars: education talks, mentoring and work placements. During 2017, we developed both a guide and a slide library to support colleagues giving talks to students aged fourteen and above. In 2018, we intend to add more structure to the mentoring and work placement aspects by working in partnership with local education providers and brokers.

Colleagues and their families in Brazil celebrated children's day by creating toys from recycled items for orphaned children.

BSI Malaysia colleagues participated in the 'Run for Hope', an annual charity run which supports children with disabilities.

BSI Americas colleagues participated in a beach clean-up event at Hermosa Beach, Los Angeles.

Social responsibility review continued

Our environment continued

In our day-to-day operations, we have a number of initiatives to manage our resource use. A number of our sites are reducing storage space and enhancing their reuse and recycling arrangements, for example moving from single-use to reusable cups, auctioning art for reuse, donating old IT equipment for reuse and recycling. In Brazil, colleagues celebrated children's day by bringing their children to the office and creating toys from recycled items for orphaned children.

Other offices are forming partnerships to raise environmental awareness and to protect our environment. In Singapore, colleagues and their families spent a day planting trees at an event organized by our business partner, Ricoh. This initiative forms part of the Singapore Government's 2014 plan to transform Singapore from a 'Garden City' to a 'City in the Garden'. In Turkey, a tree is planted for every client certified. A number of colleagues in the Americas have taken part in environmental restoration projects as part of team-building activities.

Greenhouse gases

We continued to take steps to manage more actively our energy use and greenhouse gas (GHG) emissions. We have reviewed our greenhouse gas accounting procedures in accordance with ISO 14064 (Greenhouse Gas Quantification and Reporting), the GHG protocol corporate standard and UK Government guidance, to ensure that we account for significant GHG emissions within our operational control. As a result, from 2017 onwards, we will include our significant scope 3 emissions where we have reliable and accurate data, so will report on air travel emissions for our six largest operating countries, and start to use an economic intensity ratio, based on Group revenue, to permit comparison of performance over time.

We now routinely measure our GHG emissions mid-year and are in the process of developing a communications and engagement plan to encourage colleagues to reduce more actively their energy use and GHG emissions. Some measures that countries are already undertaking include installing motion sensors for lighting, switching to more energy efficient lighting, turning off the heating and air conditioning at the weekend, reviewing emissions of the company car fleet, car sharing, web conferencing, and the careful allocation of jobs to our auditors to minimize travel where possible.

Overall, while our revenue has increased, our scope 1 and 2 emissions are broadly comparable to 2016. The largest emission reductions have been due to infrastructure changes, such as our Chiswick, UK, office refurbishment and the installation of motion sensors for lighting at our Hemel Hempstead, UK, laboratory. Where we have seen scope 1 increases in emissions at a country level, this is closely associated with an increase in client activity.

Social responsibility is a business imperative. I am really proud of the significant progress made by BSI colleagues over the last few years to further embed social responsibility in the way we do business, enabling a resilient world.

Alicja Lesniak
Chair of the Social Responsibility Committee
22 March 2018

'As we begin our 117th year, the Board is confident that 2018 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'

Greenhouse gas 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) Greenhouse Gas Reporting Guidance and have been calculated using the latest conversion factors published by Defra and the International Energy Agency for overseas electricity data.

Our December 2017 acquisition of Neville Clarke is not yet included in our data. Data for scope 3 emissions was not collected in 2016.

Greenhouse gas emissions (tCO_2e)	2017	2016
Scope 1 emissions	**4,000**	3,800
Scope 2 emissions	**2,500**	2,600
Scope 3 emissions	**10,200**	—
Total	**16,700**	6,400

Intensity ratio (tCO_2e/£m revenue)	2017	2016
Scope 1	**8.46**	9.46
Scope 2	**5.29**	6.47
Scope 3	**21.56**	—
Total	**35.31**	15.93

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.

resilient

A resilient organization is trusted, secure, robust, responsible, innovative and agile

A resilient organization anticipates and adapts both to incremental change and sudden disruption to survive and prosper in a dynamic, interconnected world. It requires continuous improvement across products, processes and people to ensure an organization that can pass the test of time. BSI can help you be more resilient.

Watch our video on resilience
bsigroup.com/resilient

Board of Directors

Our Board

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

Sir David Brown
Chairman

A N SR

Sir David Brown joined the Board as Non-Executive Director in May 2010 and became Chairman in March 2012. He was Chairman of Motorola Ltd from 1997 to 2008 and was also Motorola's Global Governance Advisor. A Chartered Engineer and Fellow of the Royal Academy of Engineering, he was President of the Federation of the Electronics Industry and President of the Institution of Electrical Engineers. He was the first President of the Chartered Quality Institute, during which time it secured its Royal Charter status. He is Non-Executive Director of TTG Global Group Ltd.

Howard Kerr
Chief Executive

N SR

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

Craig Smith FCCA
Group Finance Director

Craig Smith joined the Board as Group Finance Director in August 2011. A Chartered Certified Accountant, he began his career in 1985 with Coats Viyella PLC, undertaking finance roles in Australia, Spain, the UK, Morocco, Hungary and Finland. 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.

Dr Scott Steedman CBE
Director of Standards

SP

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. He is currently Vice-President (Policy) of the International Organization for Standardization (ISO).

Committee membership

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

Lucinda Riches CBE
Senior Non-Executive Director

A N R

Lucinda Riches was appointed advisor to the Board in May 2011, Non-Executive Director in May 2012 and Senior Non-Executive 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. She is Non-Executive Director of UK Financial Investments Limited, which manages the UK Government's investments in financial institutions. She is also Non-Executive Director of the Diverse Income Trust PLC, Ashtead Group PLC, CRH PLC and ICG Enterprise Trust PLC.

Douglas Hurt FCA
Non-Executive Director

A N R

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. He is currently Senior Independent Director and Chairman of the Audit Committee of Tate & Lyle PLC, Vesuvius PLC and Countryside Properties PLC.

Alicja Lesniak FCA
Non-Executive Director

A N SR

Alicja Lesniak was appointed Board Advisor in October 2014 and Non-Executive Director in June 2015. She has broad experience on a global level of the financial and commercial management of fast growing professional service businesses, having held senior positions at Arthur Andersen & Co., where she qualified as a Chartered Accountant, J Walter Thompson and Ogilvy & Mather at WPP Group PLC and then Omnicom before latterly being Chief Financial Officer of Aegis Group PLC from 2007 to 2009.

Dr Stephen Page
Non-Executive Director

N R SP SR

Stephen Page joined the Board in September 2015 as Non-Executive Director. Stephen has a wealth of experience in the risks and opportunities 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 eleven years he has held a portfolio of board and senior advisory positions. He is currently a Non-Executive Director of TSB Banking Group PLC, Nominet UK and the British Library.

Alison Wood
Non-Executive Director

N R

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. She is currently Non-Executive Director and Chair of the Remuneration Committee at Cobham PLC, Costain PLC and TT Electronics PLC.

Grainne Brankin
Company Secretary

Grainne Brankin joined the Group in June 2017 as General Counsel and Company Secretary. Grainne qualified at Clifford Chance and has experience of a wide range of international corporate and commercial 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.

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

Our regions

…delivered through local relationships and resources

Read more on **p4**

EMEA

Americas

Asia Pacific

Our streams

…a specialized combination of products and services

Read more on **p6**

Knowledge

Assurance

Compliance

Angela Paradise
Group Human Resources Director

Pietro Foschi
Group Strategic Delivery Director

David Brown
Director of Corporate Development

Shirley Bailey-Wood MBE
Director, Information Solutions

Mark Basham
Managing Director, BSI EMEA

Todd VanderVen
President, BSI Americas

David Horlock
Managing Director, BSI Asia Pacific

Our sectors

...across many sectors but focusing on a few

Read more on **p8**

Healthcare

Food

Built Environment

Aerospace and Automotive

All other sectors

Our domains

...Organizational Resilience across the business

Read more on **p10**

Corporate governance report

Introduction by the Chairman

Sir David Brown

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

The ultimate accountability for the governance of BSI lies with our widely experienced 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, informed by the views of those interested in standards, does invaluable work in gathering and distilling information on standardization matters and advises the Board accordingly.

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

Sir David Brown
Chairman
22 March 2018

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). In addition, Sir David Brown, Chairman, is a member of the Audit Committee (not in compliance with C.3.1 of the Code) where his knowledge and experience are considered to be beneficial.

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, its strategy and management, organization and structure, financial reporting and controls, internal controls, risk management, approval of significant contracts, acquisitions and disposals, determination of corporate policies, consideration of significant matters relating to the raising of finance, remuneration of senior management, appointments to the Board and Board Committees and corporate governance matters.

In 2017 the Board comprised the Chairman, Sir David Brown; the Chief Executive, Howard Kerr; two further Executive Directors, responsible for finance and standards; and five independent Non-Executive Directors.

There were no changes to the composition of the Board in 2017, or to date. The Directors of the Company and their roles are given in their biographical details on pages 46 and 47.

Board and Board Committee structure

The Board

Chairman

Executive

- Chief Executive
- Group Finance Director
- Director of Standards

Non-Executive

- Senior Independent Director
- Four further Independent Non-Executive Directors

Company Secretary

Board Committees
(reporting to the Board)

- Audit Committee
- Remuneration Committee
- Nominations Committee
- Social Responsibility Committee
- Standards Policy and Strategy Committee

Executive Committees
(reporting to the Chief Executive)

- Group Executive Committee
- Banking and General Purpose Committee
- Code of Conduct Oversight Committee
- Information Security Steering Committee

Corporate governance report continued

The Board continued

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 authorization of any actual or potential conflicts of interest are carried out correctly.

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 2017. 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 2017 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 2014, with the Company undertaking the following two years' reviews internally on a consistent basis to track progress. The externally facilitated evaluation process undertaken in 2017 was also carried out by Independent Board Review, which was able to build upon the benefits of those previous reviews to structure a revised information gathering process for BSI using focused questionnaires, combined with follow-up telephone conversations, to gain a greater depth of understanding. Independent Board Review independently analysed the responses and presented its findings and suggestions in a paper. The exercise was valuable and led to constructive discussion regarding areas for development and focus, with the conclusion that, while the Board was effective and working well, there was always potential to improve. It was agreed to implement the changes suggested from the evaluation, which included a review of the structure of Board meetings to allow more time for discussion and the desirability of Non-Executive Directors continuing to gain further knowledge of the Group's business and operations. The process also confirmed that the Board Committees were effective and working well but suggestions for their continuing improvement would be actioned.

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	●	●	●	●	●	●	●
Executive Directors							
Howard Kerr	●	●	●	●	●	●	●
Craig Smith	●	●	●	●	●	●	●
Dr Scott Steedman	●	●	●	●	●	●	●
Non-Executive Directors							
Douglas Hurt	○	●	●	●	●	●	●
Alicja Lesniak	●	●	●	●	●	●	●
Dr Stephen Page	●	●	●	●	●	●	●
Lucinda Riches	●	●	●	●	○	●	●
Alison Wood	●	●	●	●	●	●	●

● Attended ○ Did not attend

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

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. 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. 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 56 to 59.

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 62 to 71.

Board focus during 2017

January
- Review of the Group's competitor landscape in its key markets
- Business update on Knowledge Solutions
- Review of the Group's risk registers and the related drafting for the Annual Report
- Consideration of the Company's 2016 preliminary results

March
- Evaluation of the effectiveness of the Chairman and the Chief Executive
- Review of Non-Executive Directors' fees
- Approval of cyber security initiatives
- Consideration of the 2016 results and approval in principle of the Annual Report
- Approval of the organizational development plan
- Review of SPSC membership (tenure and fees)
- Business update on Medical Devices

May
- Review of BSI's Code of Business Ethics
- Report by the Chief Executive on the China Strategic Review
- Received a report from the SPSC on the work of the Committee and its future priorities
- Review of the Group's key competitors in its business streams
- Review of a customer insight report on vision, value proposition and priorities
- Determination of membership fees

June (two meetings)
- Review of Group strategy with the Group's Executive management
- Consideration of the Group 2018–2020 strategic plan
- Appointment of new Company Secretary
- Annual review of social responsibility policies
- Review of market and competitor challenges and opportunities
- Approval of the finance transformation programme
- Business update on the Americas region
- Proposal for organizational design plan and new structure

September
- Consideration of the governance of Group subsidiary companies
- Agreement of information technology investments for professional services business and human resources
- Review and approval in principle of the proposed acquisition of the Neville Clarke Group
- Business update on the EMEA region
- Approval of the Group's 2018–2020 strategic plan
- Review of the Group's accreditations and regulatory compliance processes
- Review of the Group's organizational structure to ensure alignment with the strategic plan

December
- Annual evaluation of the Board and its Committees
- Review of Non-Executive Director mentoring, site visits and public initiatives
- Report on BSI UK Defined Benefit Pension Scheme
- Updates on the new organizational structure and Neville Clarke Group acquisition
- Business update on the Asia Pacific region
- Approval of the Group's 2018 budget

Corporate governance report continued

Board Committees continued

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 60 and 61.

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 Dr Scott Steedman, Director of Standards, and Dr Stephen Page, Non-Executive Director, with Sir David Brown, Group Chairman, and Howard Kerr, Chief Executive, in attendance.

- Details of standards activities are given by Dr Scott Steedman, Director of Standards, on pages 32 to 34.

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 Alicja Lesniak, Non-Executive Director, and its members are Sir David Brown, Group Chairman, Dr Stephen Page, Non-Executive Director, and Howard Kerr, Chief Executive, with the Group Head of Social Responsibility in attendance.

- The Social responsibility review is set out on pages 40 to 44.

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, as part of the internal audit department, 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 30 and 31.

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

Sir David Brown
Chairman
22 March 2018

Statement of Directors' responsibilities in respect of the financial statements

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 parent company and of the profit or loss of the Group 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 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

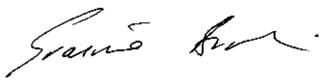
The Directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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
22 March 2018

Introduction by Lucinda Riches, Chairman of the Audit Committee

During the year, the Audit Committee (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. On behalf of the Board, the 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.

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 rigor 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. The Committee monitored an internal audit self-assessment process in 2016 and 2017 and it is intended that a further EQA will be carried out in 2018.

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. In 2016 a new risk-based approach to the audit plan, relevant to the developing profile of the Group, was successfully applied and the 2017 audit also used this approach. The Committee is also responsible for the relationship with the external auditors and their quality, expertise and judgement as well as 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 AGM.

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 the year, its activities included considering the relationship between brand risk and reputational risk and monitoring the finance transformation project.

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.

Lucinda Riches
Chairman of the Audit Committee
22 March 2018

The Audit Committee

Audit Committee attendance

Attendance	Mar	Jun	Nov
Lucinda Riches (Chairman)	●	●	●
Sir David Brown	●	●	●
Douglas Hurt	●	●	●
Alicja Lesniak	●	●	●

● Attended

The Committee is established by the Board under terms of reference that are reviewed annually and were most recently updated in March 2017. A copy of the Committee's terms of reference is available on the BSI Group website.

Membership

During the year ended 31 December 2017 the Committee comprised:

- Lucinda Riches (Chairman)
- Sir David Brown
- Douglas Hurt
- Alicja Lesniak

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, is a member of the Committee as his knowledge and experience are considered beneficial. Sir David Brown has 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.

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 both Tate & Lyle PLC and Countryside Properties PLC. Alicja Lesniak 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. Lucinda Riches was an investment banker for over 20 years at SG Warburg and successor firms and is a Non-Executive Director of UK Financial Investments Limited, CRH PLC and Ashtead Group PLC. All are considered to have 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.

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;

Report of the Audit Committee continued

Key responsibilities of the Committee continued

- 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 every three years, with a self-assessment process against the IIPPF elements undertaken in the years between, and this was carried out in 2016 and 2017. It is intended that a further EQA will be carried out in 2018. 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 2016 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 2016 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 2017 audit plan with the auditors based on the more risk-based approach developed to address the developing profile of the Group;
- agreed areas of audit focus with the external auditors which, for 2017, 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 2017, 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 the relationship between brand risk and reputational risk and the approach taken to address each;
- 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 page 52. 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 2017 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 3.2:1.

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. It was considered in the best interests of the Group to retain PricewaterhouseCoopers LLP for non-audit work in connection with corporate tax compliance and advisory services in the US and China, due to their relevant expertise and knowledge of the Group's business. This work was completed and ceased in 2017.

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. John Minards has been the audit partner since that time. In line with best practice, 2017 will be John Minards' final year as audit partner and he will be succeeded by Owen Mackney. At least once every ten years the external audit services contract will be put out to tender.

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 2018 Annual General Meeting.

By Order of the Board

Lucinda Riches
Chairman of the Audit Committee
22 March 2018

Introduction by Sir David Brown, Chairman of the Nominations Committee

With no changes to the Board in 2017 the Nominations Committee (the 'Committee') focused on strategic matters. 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 2018–2020 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 2018, 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.

Sir David Brown
Chairman of the Nominations Committee
22 March 2018

The Nominations Committee

In 2017, the Committee maintained its continuing assessment of the balance of skills, knowledge, experience and diversity on the Board.

Nominations Committee attendance

The Committee met four times in the year ended 31 December 2017.

Attendance	Mar	May	Sep	Dec
Sir David Brown (Chairman)	●	●	●	●
Douglas Hurt	●	●	●	●
Howard Kerr	●	●	●	●
Alicja Lesniak	●	●	●	●
Dr Stephen Page	●	●	●	●
Lucinda Riches	●	●	●	●
Alison Wood	●	●	●	●

● Attended

The Committee is established by the Board under terms of reference reviewed annually and most recently updated in July 2011. A copy of the Committee's terms of reference is available on the BSI Group website.

Membership

During the year ended 31 December 2017 the Committee comprised:

- Sir David Brown (Chairman)
- Douglas Hurt
- Howard Kerr
- Alicja Lesniak
- Dr Stephen Page
- Lucinda Riches
- Alison Wood

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;
- considered Board succession with regard to Board and Board Committee weight and balance, considering both Executive and Non-Executive Directors;
- considered the organization-wide talent development programme and succession planning and reviewed proposed action and resource plans;
- reviewed the Group leadership's competencies and leadership capabilities in the context of the new organizational structure; and
- considered the findings of the Committee evaluation process.

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.

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 41.

By Order of the Board

Sir David Brown
Chairman of the Nominations Committee
22 March 2018

Introduction by Alison Wood, Chairman of the Remuneration Committee

In setting Executive remuneration and advising on the reward framework for the wider organization, the Remuneration Committee (the 'Committee') aims to ensure alignment with the objects and 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.

The Committee also 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 2017 and the (unchanged) policy for 2018 for the Executive Directors. The report also outlines the way the Committee is driving the design of an improved remuneration structure for Executive Directors, the executive team and the wider organization to ensure that our reward strategy continues to fully align with the delivery of the ambitious future of BSI, in particular as the National Standards Body (NSB), increasingly now on a global basis, and with the growth plans of the BSI business.

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. This year, for example, more detail is provided about Executive Directors' performance against personal targets under the Annual Bonus Plan.

Performance and reward for 2017

2017 saw a continuation of BSI's strong financial performance. The Group has continued to execute its strategy, securing significant organic growth in its core Knowledge, Assurance and Compliance streams as well as the successful completion of an acquisition. The NSB has increased its outreach globally and has 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. This work has been essential to ensure the long-term resilience of BSI and national standards.

In addition, the business has continued to drive operational imperatives across all territories, resulting in an uplift in profit in each. The payments made to the Executive Directors under BSI's variable pay arrangements reflect the success of the Group in 2017. I am pleased to report that Group profit for the Annual Bonus Plan (GPB) and revenue exceeded the challenging target levels set before the year began and resulted in bonus payments under the Annual Bonus Plan approaching maximum levels permitted under the scheme.

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 in 2017, as the thresholds for the management operating profit (MOP) and revenue targets set in 2015 were exceeded. In 2017 the Group once more achieved record levels of revenue and profit and the Executive Directors' variable pay earnings reflected their success in achieving and exceeding the strategic targets set in earlier years.

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 have positively contributed to the longer-term resilience of the Group.

Further details may be found in the 'Variable pay' section on pages 65 to 67.

Discretionary decisions made in 2017

The Committee retains discretionary power regarding certain areas of Executive Directors' remuneration. During 2017 the Committee did not exercise any of its discretionary power with regard to Executive Director remuneration.

Remuneration policy for 2018

There have been no revisions to the policy for 2018. The target weighting for the LTIP has been designed to encourage an emphasis on longer-term revenue growth in accordance with the strategic plan while the annual bonus targets the delivery of excellence in execution with the focus on annual profit achievement.

Details are set out in the 'Remuneration policy 2018' table on pages 68 and 69.

In keeping with prior years, for 2018, the targets set for the LTIP award are intended to provide incentives to the Executive Directors to achieve the significant growth in revenue and profits by 2020 that are set out in the strategic plan, while the Annual Bonus Plan will provide incentive to build profit, recognizing the impact of the investments into the business needed in 2018 to support longer-term growth.

2018 focus

There are two areas of focus in 2018 for the Committee. Firstly, there is a developing global perspective shared by the Group's wider stakeholders on reward. This is based on the theme of fairness, in particular with regard to pay disparity across organizations and gender pay equality. The Committee will continue to drive for increased transparency and disclosure so that we can monitor progress in these areas.

Secondly, BSI intends to bring about further growth under a strategic plan which involves, as discussed elsewhere in the Annual Report, the re-organization of the Group and significant investment in technology and headcount. During 2018 the Committee will continue to drive a more fundamental review of the Group's remuneration structure which commenced in 2017. The review aims to provide a remuneration structure for Executive Directors, the executive team and the wider organization that will help attract, retain and motivate the people BSI needs to grow as intended in the strategic plan. To this end, advice is being sought and benchmarking exercises are being undertaken to make sure that the Group's remuneration structure supports the achievement of its aims in a demonstrable way.

Alison Wood

Alison Wood
Chairman of the Remuneration Committee
22 March 2018

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 January 2017. A copy of the Committee's terms of reference is available on the BSI Group website.

Membership

During the year ended 31 December 2017 the Committee comprised:

- Alison Wood (Chairman)
- Douglas Hurt
- Dr Stephen Page
- Lucinda Riches

When appropriate, Sir David Brown, Howard Kerr, Craig Smith, Alicja Lesniak and the Group HR Director, Angela Paradise, or her predecessor, Devyani Vaishampayan, 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 2017 external advice was sought from Willis Towers Watson on Executive remuneration benchmarking and Mercer regarding the Chairman's fee.

Remuneration Committee attendance

The Committee met four times in the year ended 31 December 2017.

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

● Attended

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 2017 Annual Bonus Plan and 2017 LTIP awards;
- approved the Directors' remuneration report in the Company's 2016 Annual Report;
- reviewed the fee of the Chairman in light of a benchmarking exercise by Mercer and recommended that an increase be put to members at the Annual General Meeting;
- considered and agreed payments under the 2016 bonus plan and the LTIP awards granted in 2014;
- agreed a proposal to review the remuneration strategy of the Group;
- considered the scope of existing and new incentive schemes;
- received proposals for rationalizing bonus schemes across the Group;
- considered the treatment of annual bonus and LTIP awards of the retiring Company Secretary and other executives who would be leaving the Group;
- reviewed progress by advisors Willis Towers Watson on their benchmarking of Group Executive roles in light of the reorganization;
- agreed that the effect of the Neville Clarke Group acquisition on 1 December 2017 would be disregarded for 2017 incentive plans; and
- considered the findings of the Committee evaluation process.

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 the strategic plan. 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 toward 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 2017 reflect the achievement of the 2017 Annual Bonus Plan targets, shown below on this page, and of the 2015 LTIP targets, shown on page 66.

2017 remuneration

Single figure total (audited information)

							Variable pay receivable for 2017					
	Salaries and fees		Taxable benefits[1]		Pension benefits[2]		Bonus		LTIPs		Total	
Director	**Year ended 31 Dec 2017 £'000**	Year ended 31 Dec 2016 £'000	**Year ended 31 Dec 2017 £'000**	Year ended 31 Dec 2016 £'000	**Year ended 31 Dec 2017 £'000**	Year ended 31 Dec 2016 £'000	**Year ended 31 Dec 2017 £'000**	Year ended 31 Dec 2016 £'000	**Year ended 31 Dec 2017 £'000**	Year ended 31 Dec 2016 £'000	**Year ended 31 Dec 2017 £'000**	Year ended 31 Dec 2016 £'000
Executives												
Howard Kerr[3]	**434**	421	**24**	26	**—**	—	**348**	362	**350**	342	**1,156**	1,151
Craig Smith[4]	**324**	314	**25**	21	**—**	—	**213**	220	**201**	196	**763**	751
Dr Scott Steedman[5]	**269**	235	**15**	15	**7**	13	**188**	173	**158**	154	**637**	590
	1,027	970	**64**	62	**7**	13	**749**	755	**709**	692	**2,556**	2,492
Chairman												
Sir David Brown	**156**	151	**6**	6	**—**	—	**—**	—	**—**	—	**162**	157
Non-Executives												
Douglas Hurt	**39**	37	**—**	—	**—**	—	**—**	—	**—**	—	**39**	37
Alicja Lesniak	**44**	42	**1**	—	**—**	—	**—**	—	**—**	—	**45**	42
Dr Stephen Page	**39**	37	**1**	1	**—**	—	**—**	—	**—**	—	**40**	38
Lucinda Riches	**44**	42	**—**	—	**—**	—	**—**	—	**—**	—	**44**	42
Alison Wood	**44**	42	**1**	1	**—**	—	**—**	—	**—**	—	**45**	43
	366	351	**9**	8	**—**	—	**—**	—	**—**	—	**375**	359
Total	**1,393**	1,321	**73**	70	**7**	13	**749**	755	**709**	692	**2,931**	2,851

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 £58,301 (2016: £55,413) supplement in lieu of pension contributions.

4 Salary includes £37,109 (2016: £35,066) supplement in lieu of pension contributions.

5 Salary includes £23,069 (2016: £15,358) supplement in lieu of pension contributions.

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 2017 (2016: none).

Fixed pay

Base salary during 2017

Per annum base salary	To 28 February 2017 £'000	From 1 March 2017 £'000
Howard Kerr	367.00	377.50
Craig Smith	280.75	288.25
Dr Scott Steedman	220.50	250.00

Variable pay

Annual bonus for 2017

Annual bonuses for the year ended 31 December 2017 were provided under the Annual Bonus Plan to Howard Kerr, Craig Smith and Dr Scott Steedman, by the Committee, in accordance with the policy set out in the Annual Report 2016 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 Remuneration Committee continued

Variable pay continued

Annual bonus for 2017 continued

The table below sets out the percentage of base salary upon which potential 2017 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%
Dr Scott Steedman	24%	8%	8%	40%	40%	80%

The target levels set for 2017 were GPB of £72.9m and revenue of £484.5m 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 achievement of the financial results in a way consistent with the strategic plan, senior leadership development and succession and strategic delivery within the risk appetite set by the Board. Craig Smith's personal objectives included the support and promotion of BSI's Group social responsibility initiative, the optimization of the information technology function in light of the business reorganization and to drive the finance transformation programme. Scott Steedman's personal objectives included the development of BSI's social responsibility initiative within his area of responsibility, a detailed review of profitability in the Knowledge Solutions business and to review the cost framework of the standards development committees.

Actual GPB at budget exchange rates achieved for 2017 was £79.4m (109% of GPB target). This is calculated as UOP at actual exchange rates of £59.5m, adjusted by adding back LTIP charges of £1.7m bonus charges of £13.2m, amortization of acquired intangibles of £2.3m and an exchange adjustment of £2.7m. Actual revenue achieved for 2017 was £473.0m. This is increased by an £8.4m exchange adjustment to £481.4m at 2017 budget exchange rates. As agreed by the Committee, the effect of the 1 December 2017 Neville Clarke Group acquisition was disregarded. The annual bonuses earned in respect of 2017 were:

	Percentage of base salary					
2017 annual bonus payments (audited information)	Actual award based on GPB	Actual award based on on revenue	Actual on-target award based on personal objectives	Payable on achievement of 109% of GPB	Total actual award	Actual award
Howard Kerr	30%	9.48%	8.00%	44.70%	92.18%	£347,980
Craig Smith	24%	7.58%	6.40%	35.76%	73.74%	£212,567
Dr Scott Steedman	24%	7.58%	7.83%	35.76%	75.17%	£187,926

Long Term Incentive Plan vesting in 2017 (audited information)

In 2015, Howard Kerr, Craig Smith and Dr Scott Steedman, as participants in the LTIP, were awarded participation units (PUs), in accordance with the policy set out in the Annual Report 2014 Directors' remuneration report, with the proportion of those PUs vesting depending on the achievement of management operating profit (MOP) and revenue targets for the third financial year after award, i.e. for the year ended 31 December 2017. MOP was defined as 'underlying operating profit adjusted for items considered by the Remuneration Committee to be beyond the control of management' and was set in advance of the performance period. Each vesting PU would provide £1.00.

For the LTIP awards made in 2015, the target levels for 2017 were MOP of £40.7m and revenue of £371.3m at 2015 budget exchange rates. Vesting would be on a predetermined scale beginning with 10% vesting at the minimum performance threshold of MOP of £38.6m and revenue of £352.8m, 50% vesting at the on-target performance and a maximum of 150% vesting at the maximum performance threshold of MOP of £43.0m and revenue of £385.6m. Vesting would be on a straight-line basis between performance levels.

Actual MOP at 2017 budget exchange rates was £68.1m, calculated as UOP at actual exchange rates of £59.5m, adjusted by adding back the amortization of acquired intangibles of £2.3m, LTIP charges of £1.7m, above target bonus charges of £1.9m and an exchange adjustment of £2.7m. Actual revenue achieved for 2017 was £473.0m. This is increased by an £8.4m exchange adjustment to £481.4m at 2017 budget exchange rates. As agreed by the Committee, the effect of the 1 December 2017 Neville Clarke Group acquisition was disregarded. Maximum vesting was provided under the LTIP and the number of PUs vesting and the payments made were:

Long Term Incentive Plan vesting 2017	PUs awarded 2015	Vesting	Payment 2017
Howard Kerr	233,495	150%	£350,243
Craig Smith	134,000	150%	£201,000
Dr Scott Steedman	105,000	150%	£157,500

Long Term Incentive Plan awarded in 2017 (audited information)

In 2017 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 2019. GPL is defined as underlying operating profit before LTIP charges and all foreign exchange adjustments. The PUs awarded under the LTIP in 2017 were:

2017 LTIP awards	Basis – salary multiple	PUs awarded 2017	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%	245,890	10%	50%	150%	31 December 2019
Craig Smith	50%	140,375	10%	50%	150%	31 December 2019
Dr Scott Steedman	50%	110,250	10%	50%	150%	31 December 2019

Total LTIP awards held

LTIP awards held	Howard Kerr	Craig Smith	Dr 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 2017	245,890	140,375	110,250	10%	50%	150%	31 December 2019
PUs awarded 2016	239,860	137,500	107,500	10%	50%	150%	31 December 2018
Total PUs held	485,750	277,875	217,750				

Pension contributions

The Company paid 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. These payments were subject to deductions relating to the reimbursement of employer national insurance contributions on them.

Loss of office payments (audited information)

No payments for loss of office were made in 2017 (2016: £nil).

Payments to past Directors (audited information)

No payments to past Directors were made in 2017 (2016: £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
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%	67%
2010	706	100.0%	—
2009	798*	64.8%	—

* Includes £215,000 relocation contribution.

Howard Kerr was Chief Executive for each year shown.

2017 remuneration change from 2016

	% change in salary	% change in taxable benefits	% change in bonus
Chief Executive	+2.8%*	-8.0%	-3.9%
UK employees	+2.6%	-12.5%	+25.4%

* +3.1% if salary paid in lieu of pension contributions is included.

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.

Distribution of profit above budget

In accordance with the arrangements set out above, and other incentive arrangements in place, 25% of profits made above budget were used for variable pay awards across the Group.

Statement of implementation of Directors' remuneration policy

During 2017, all Directors' remuneration was awarded within the policy set out in the Directors' remuneration report in the Annual Report and financial statements 2016.

Remuneration policy 2018

The Directors' remuneration policy is set out in the table opposite. It applies to remuneration awards made from 1 January 2018 and is set for a period of one year. There were no areas of change from the policy operated in 2017. 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 provided on the same basis to all employees in order to attract, retain and motivate individuals and is provided at a level appropriate to their role.

Maximum value	Performance metrics	Changes from 2017 policy
	Not applicable.	
	Not applicable.	
	Not applicable.	
Maximum bonuses for Howard Kerr, Craig Smith and Dr 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 Dr 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 2018 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
Dr 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
Sir David Brown	27 May 2010	Non-Executive Director
	1 December 2011	Deputy Chairman
	31 March 2012	Chairman
Douglas Hurt	1 November 2015	Non-Executive Director
Alicja Lesniak	1 October 2014	Board Advisor
	1 June 2015	Non-Executive Director
	18 May 2017	re-appointed
Dr Stephen Page	1 September 2015	Non-Executive Director
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.

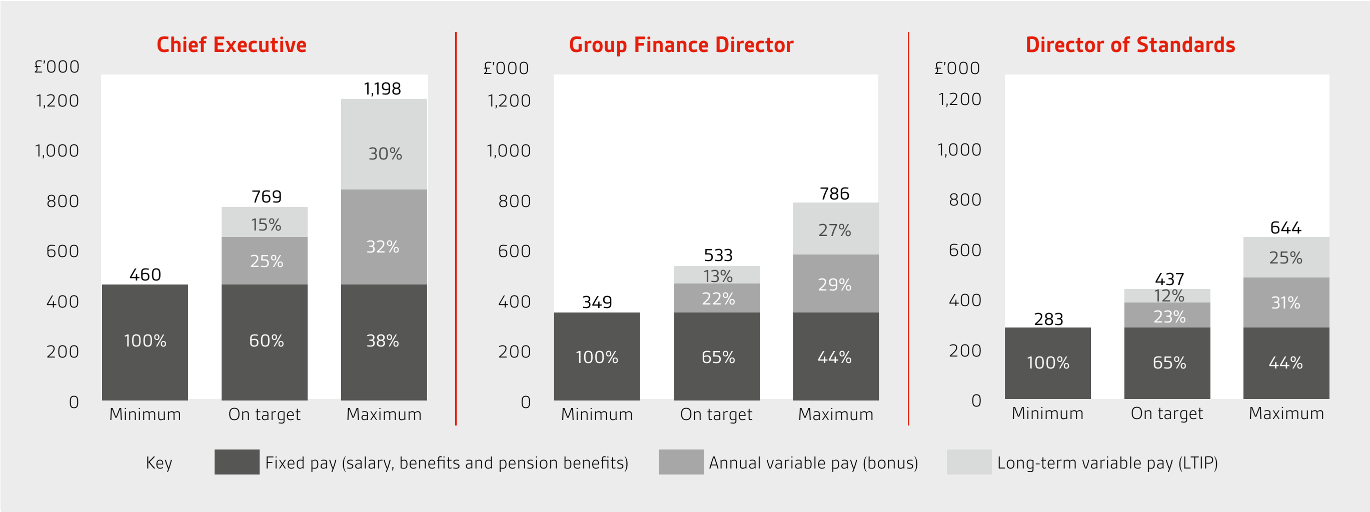
Policy on termination payments

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 2018

The charts below provide an illustration of what could be received by each Executive Director for 2018, 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 Dr 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 Dr 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 2017 and actual 2017 benefit and pension benefit amounts; annual bonus awards for potential payment with respect to the 2018 financial year are based on base salary at 31 December 2017; and LTIPs are based on the 2016 awards potentially vesting for the performance period ending 31 December 2018.

Consideration of employment conditions elsewhere in the Group

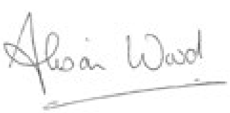
Salaries and benefits are regularly reviewed and compared to the general market (including FTSE 350 companies), economic indicators and competitor businesses. The survey data is compiled from both generic third-party surveys and specific, targeted research. In considering the salary levels for the Executive 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 does not formally consult with employees but 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.

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
22 March 2018

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 2017.

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 2017, 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;
- research and development activities; and
- gender and human rights disclosures.

Corporate governance

The Corporate governance report is set out on pages 50 to 54.

The Board

The members of the Board are listed on pages 46 and 47 and all held office throughout the year. The Directors were as follows:

Sir David Brown
Howard Kerr
Craig Smith
Dr Scott Steedman
Douglas Hurt
Alicja Lesniak
Dr 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.

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 Craig Smith and Alison Wood will be standing for re-election at the 2018 Annual General Meeting.

Annual General Meeting

The 2018 Annual General Meeting will be held at 4pm on Thursday 17 May 2018 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 2017 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 41 and 42.

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 40 to 44. This review also contains disclosures of the Group's greenhouse gas emissions. The Company made no political donations during the year (2016: £nil).

Principal risks and uncertainties

The principal risks and uncertainties facing the business are detailed on pages 30 and 31.

Financial instruments

Details of the use and materiality of financial instruments are provided in Notes 17 and 20 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 2017, the Directors drew up the strategic plan for the Group until the end of 2020. 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 2020, 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 is embarking on 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
22 March 2018

Financial statements

Consolidated financial statements

Parent company financial statements

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 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the 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 Group consolidated balance sheet, the Group consolidated income statement, the Group consolidated statement of comprehensive income, the Group consolidated statement of cash flows, the Group consolidated statement of changes in equity, and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

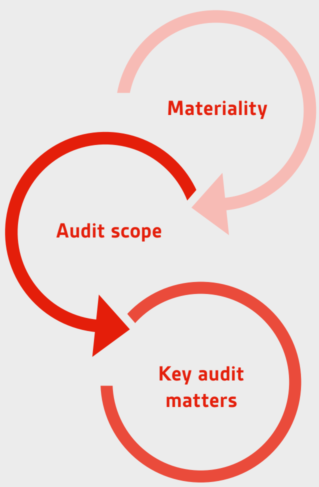
We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit 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: £5.4 million (2016: £4.1 million) which represents approximately 10% of profit before tax.

- We performed an audit of the complete financial information of BSI Standards Ltd., BSI Assurance UK Ltd. and BSI Group America Inc. operations due to their financial significance to the Group, together with the global head office Group function.
- We instructed component auditors to perform specified audit procedures at five further reporting locations in the UK, Ireland, USA and China.
- The UK Group engagement team undertook site visits to Mexico and Japan.
- The reporting locations subject to audit procedures account for 83% of the Group's operating profit and 84% of the Group's profit before tax.

- Valuation of defined benefit pension scheme assets and liabilities.
- Taxation.
- 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. We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognizing that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group financial statements, including but not limited to, the Companies Act 2006, local laws and regulations applicable to significant component teams, the Pensions Regulator legislation and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, enquiries of management, review of significant component auditor's work and review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud.

As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and 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 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 the UK defined benefit pension scheme assets and liabilities	
The Group has defined benefit pension plans with net retirement benefit obligation liabilities of £91.4m, which are significant in the context of the overall balance sheet of the Group. The valuation of the pension liabilities and pension assets, in particular qualifying insurance policies relating to pension insurance buy-in, requires significant levels of judgement and technical expertise in choosing appropriate assumptions. The assumptions used to value the qualifying insurance policies and pension liabilities can be found on page 113 within Note 24 to the financial statements. Assets held under qualifying insurance policies exactly match the amount and timing of some of the benefits payable under the plan and are therefore valued at the present value of the related obligations. 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 and the pension insurance buy-in assets.	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 – including in respect of qualifying insurance policies for pension insurance buy-in – by comparing them to our independently developed benchmarks. We noted that mortality, discount rate and inflation assumptions were towards the middle 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 range position at which assumptions were established in prior years. From the evidence obtained we found the assumptions and methodology used to be appropriate. Based on the work performed we found that the assumptions used were supported by the evidence obtained.
Taxation	
The international operations of the Group and the origin of the Group's taxable profits make tax a complex area. Whilst there have been tax enquiries from some international tax authorities, these are closely monitored by management and we are not aware of any exposures of sufficient significance and likelihood to deem tax to be an area of significant audit risk.	We reviewed the year-end reported information to ensure that the Group was appropriately provided against known exposures at the year end. We discussed the strategy for managing the Group's effective tax rate with management and comment on its movements in our report to the Audit Committee. We assessed the recoverability and valuation of deferred tax assets. From the evidence obtained we found the assumptions and methodology used in calculation of current and deferred tax charges and balances to be appropriate. Based on the work performed we found that the assumptions used were supported by the evidence obtained.

Key audit matter	How our audit addressed the key audit matter
Consideration of goodwill and intangible assets for impairment	
The Group has intangible assets (including goodwill) of £95.1m, 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 a KAM due to 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. From the evidence obtained we found that the Directors' assumptions and methodology used in impairment assessment were appropriate. Based on the work performed we found that the assumptions used were supported by the evidence obtained.

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.

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	£5.4 million (2016: £4.1 million).
How we determined it	Approximately 10% 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.

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 £123,000 and £2,340,000. 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 £500,000 (2016: £400,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report continued

to the Board of Directors of The British Standards Institution

Report on the Group 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 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.

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 and Directors' report, 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 2017 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 30 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; or
- the Directors' explanation on page 73 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 72, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members 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; or
- the section of the Annual Report on page 57 and 58 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.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 55, 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 responsibility is to audit and express an opinion on the financial statements in accordance with paragraph 21 of The British Standards Institution's Royal Charter and Bye-laws and applicable law and ISAs (UK). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 parent company's members as a body in accordance with Chapter 3 of Part 16 of 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 2017 and on the information in the Directors' remuneration report that is described as having been audited.

John Minards (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 March 2018

Consolidated income statement

for the year ended 31 December 2017

	Note	**2017 £m**	2016 £m
Revenue	5, 6	**473.0**	401.8
Cost of sales		**(252.4)**	(209.8)
Gross profit		**220.6**	192.0
Selling and distribution expenses		**(55.6)**	(50.5)
Administrative expenses		**(105.5)**	(91.4)
Operating profit before exceptional costs	5	**59.5**	50.1
Exceptional operating costs	7	**(4.2)**	(2.8)
Operating profit	7	**55.3**	47.3
Finance income	11	**0.2**	0.2
Finance costs	11	**(2.5)**	(2.3)
Profit before income tax		**53.0**	45.2
Income tax expense	12	**(16.2)**	(13.8)
Profit for the year		**36.8**	31.4

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

The accompanying notes on pages 85 to 117 form an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2017

	Note	2017 £m	2016 £m
Profit for the year		**36.8**	31.4
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefit obligations, net of taxes	24b	**3.1**	(35.7)
Impact of change in the UK tax rate on deferred tax		**—**	(1.0)
		3.1	(36.7)
Items that may be subsequently reclassified to profit or loss			
Net investment and cash flow hedges		**(0.3)**	1.9
Currency translation differences		**(2.2)**	7.9
		(2.5)	9.8
Other comprehensive profit/(loss) for the year, net of taxes		**0.6**	(26.9)
Total comprehensive income for the year		**37.4**	4.5

The accompanying notes on pages 85 to 117 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2017

	Note	Retained earnings £m	Translation reserve £m	Total £m
At 1 January 2016		80.2	(1.8)	78.4
Profit for the year		31.4	—	31.4
Re-measurements of post-employment benefit obligations, net of taxes	24b	(35.7)	—	(35.7)
Impact of change in the UK tax rate on deferred tax		(1.0)	—	(1.0)
Net investment and cash flow hedges		—	1.9	1.9
Currency translation differences		—	7.9	7.9
At 31 December 2016		**74.9**	**8.0**	**82.9**
Profit for the year		**36.8**	**—**	**36.8**
Re-measurements of post-employment benefit obligations, net of taxes	24b	**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**

The accompanying notes on pages 85 to 117 form an integral part of the consolidated financial statements.

Retained earnings
Retained earnings are used to record the changes in retained profit/(loss), actuarial gains/(losses) relating to retirement benefit obligations and related impacts of UK tax rate changes on 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 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Property, plant and equipment	13	**26.1**	25.8
Goodwill	14	**65.3**	65.6
Intangible assets	14	**29.8**	31.7
Deferred tax assets	16	**26.8**	31.6
Trade and other receivables	19	**6.4**	4.9
Total non-current assets		**154.4**	159.6
Current assets			
Inventories	18	**0.2**	0.1
Trade and other receivables	19	**114.4**	101.4
Current tax assets		**–**	0.9
Fixed term deposits	21	**10.0**	–
Cash and cash equivalents	21	**57.8**	48.1
Total current assets		**182.4**	150.5
Total assets		**336.8**	310.1
Liabilities			
Non-current liabilities			
Deferred tax liabilities	16	**(7.2)**	(10.6)
Retirement benefit obligations	24	**(91.4)**	(105.4)
Provisions for liabilities and charges	23	**(1.8)**	(1.6)
Trade and other payables	22	**(11.8)**	(9.0)
Total non-current liabilities		**(112.2)**	(126.6)
Current liabilities			
Trade and other payables	22	**(98.9)**	(94.4)
Derivative financial instruments	20	**–**	(0.1)
Current tax payables		**(5.1)**	(5.4)
Provisions for liabilities and charges	23	**(0.3)**	(0.7)
Total current liabilities		**(104.3)**	(100.6)
Total liabilities		**(216.5)**	(227.2)
Net assets		**120.3**	82.9
Reserves			
Retained earnings		**114.8**	74.9
Translation reserve		**5.5**	8.0
Total reserves		**120.3**	82.9

The accompanying notes on pages 85 to 117 form an integral part of the consolidated financial statements. The consolidated financial statements on pages 80 to 84 were approved by the Board of Directors on 22 March 2018 and were signed on its behalf by:

Craig Smith FCCA
Group Finance Director
22 March 2018

Consolidated statement of cash flows
for the year ended 31 December 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Profit before income tax		**53.0**	45.2
Adjustments for:			
– Retirement benefit charges	24b	**0.6**	0.5
– Depreciation of property, plant and equipment	7	**4.7**	4.2
– Amortization of intangible assets	7	**7.1**	6.5
– Loss on disposal of tangible assets	7	**0.2**	0.4
– Loss on disposal of intangible assets	7	**—**	0.1
– Provision for impairment of trade receivables	7	**0.9**	1.1
– Bad debts written off	7	**0.7**	0.5
– Finance income	11	**(0.2)**	(0.2)
– Finance costs	11	**2.5**	2.3
Changes in working capital (excluding the exchange differences on consolidation):			
– (Increase)/decrease in inventories		**(0.1)**	0.1
– Increase in trade and other receivables		**(19.8)**	(10.2)
– Decrease in liability for derivative financial instruments		**(0.1)**	—
– Increase in trade and other payables		**11.9**	10.0
– (Decrease)/increase in provisions and other liabilities		**(0.1)**	0.6
Retirement benefit payments	24b	**(13.5)**	(12.5)
Cash generated from operations		**47.8**	48.6
Interest received		**0.2**	0.2
Income tax paid		**(15.4)**	(12.5)
Net cash generated from operating activities		**32.6**	36.3
Cash flows from investing activities			
Purchases of property, plant and equipment	13	**(5.5)**	(8.8)
Purchases of intangible assets	14	**(5.3)**	(3.3)
Purchase of fixed term deposits	21a	**(10.0)**	—
Acquisition of subsidiaries, net of cash acquired		**(1.9)**	(29.3)
Net cash used in investing activities		**(22.7)**	(41.4)
Net increase/(decrease) in cash and cash equivalents		**9.9**	(5.1)
Opening cash and cash equivalents		**48.1**	51.0
Exchange (loss)/gain on cash and cash equivalents		**(0.2)**	2.2
Closing cash and cash equivalents	21	**57.8**	48.1

The accompanying notes on pages 85 to 117 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 22 March 2018.

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

No new standards, amendments or interpretations effective for the first time for the financial year beginning on 1 January 2017 have had a material impact on the Group or parent company.

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 2018, and have not been applied in preparing these consolidated financial statements. Except for IFRS 15 and IFRS 16, none of these is expected to have a significant effect on the consolidated financial statements of the Group:

IFRS 15, "Revenue from Contracts with Customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Variable consideration is included in the transaction price if it is highly probable that there will be no significant reversal of the cumulative revenue recognized when the uncertainty is resolved. In addition IFRS 15 requires the deferral of the incremental costs of obtaining contracts over the period of the contract and expected renewals. The standard replaces IAS 18, "Revenue" and IAS 11, "Construction Contracts" and related interpretations.

The Group plans to transition to IFRS 15 using the cumulative effect method, recognizing the cumulative effect of applying the new standard at the beginning of the year of initial application, with no restatement of comparative periods. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

The Group has undertaken a comprehensive review of the impact of IFRS 15 against each of its revenue generating activities as well as the impact on accounting for the incremental costs of obtaining contracts.

Impact of IFRS 15 on revenue recognition

The Group's revenue generating activities can be classified within the following three broad categories (Note 6):

a) Rendering of services – The Group's services materially relate to time and material contracts. Revenue is recognized when control and the related benefit to the customer passes.

   There is no change in the timing of revenue recognition in this category following application of IFRS 15. However, 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 our assessment from that of principal to agent. If IFRS 15 had been applied in 2017 to these reseller contracts revenue would have been restated to reflect just the margin rather than gross revenue. As a result revenue and cost of sales currently recognized in 2017 would have reduced by £1.6m.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

2. Principal accounting policies continued

b. Changes in accounting policy and disclosures continued

ii. New standards, amendments and interpretations not yet adopted continued

Impact of IFRS 15 on revenue recognition continued

b) Sale of goods – Goods under this category include sale of publications, sale of non-hosted software and other software where the Group does not have any further material obligation to keep the goods current to maintain their benefit to the customer. There is no change in the timing or amount of revenue to be recognized under IFRS 15 against the current rules applied for revenue recognition under this category for the Group. Revenue continues to be recognized on the delivery of goods when control passes to the customer.

c) Copyright and royalty income – This includes revenue generated from the grant of licences and/or access to the Group's intellectual property, including proprietary publications. There is no material change to the Group's current revenue recognition practices against those required by IFRS 15 under this category.

Capitalizing incremental costs of obtaining a contract

The incremental costs of obtaining contracts with customers will be recognized as an asset and amortized on a straight-line basis over their average period of benefit, unless the amortization period is one year or less, in which case they are not capitalized but will continue to be expensed as incurred.

The period of benefit over which the incremental costs will be amortized generally equates to the estimated average customer lives of these capitalized assets and range from between 1.1 to 11.1 years. However, where costs are incurred on contract renewals which are commensurate with that incurred on initial contract, the period of benefit equates to the period of the relevant contract.

The assets' residual values and amortization periods are reviewed, and will be adjusted if appropriate, at the end of each reporting period. 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).

If the Group had applied IFRS 15 in 2017:

- Operating profit would have been £1.8m higher; and
- Total assets would have been £12.6m higher as at 31 December 2017.

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 during 2017. The review has concluded that lease assets and corresponding lease obligations of between £50.3m and £56.6m will be introduced to the Group's consolidated balance sheet. In addition lease costs in the Group consolidated profit and loss account within the scope of IFRS 16 of £10.1m would be replaced by depreciation costs of between £9.1m and £8.3m and finance costs of between £1.1m and £2.0m at an average implicit lease interest rate of 2% or 5% above the base rate within each of the countries where the Group has leases respectively.

IFRS 9, "Financial Instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. Under IFRS 9 there is a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there are no changes to classification and measurement, except for the recognition of changes in own credit risk in OCI, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. To qualify for hedge accounting, it requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

The Group has considered the introduction of IFRS 9 and concluded that the impact from the application is not material, including the introduction of the expected credit loss model.

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 give 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

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

2. Principal accounting policies continued

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.

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.

2. Principal accounting policies continued

g. Intangible assets continued

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;
- 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 1 to 15 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 (Note 14).

i. 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 19 and 21).

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

2. Principal accounting policies continued

i. 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.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 19.

j. Impairment of financial assets

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

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

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

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

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

Impairment testing of trade receivables is described in Note 19.

k. 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.

l. 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.

2. Principal accounting policies continued

l. Derivative financial instruments and hedging activities continued

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.

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.

m. Trade receivables

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

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

n. Fixed term deposits

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

o. 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.

p. Trade payables

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

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

2. Principal accounting policies continued

q. 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.

r. 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.

s. 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.

t. 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.

2. Principal accounting policies continued

t. Retirement benefit obligations continued

i. Defined benefit pension schemes continued

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 24b. 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.

u. Revenue

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

The Group recognizes revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

i. Sale of goods

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

ii. Rendering of services

The Group provides a variety of assessment and certification services, consultancy services and training services. Sales value is recognized as the services are performed. Some consultancy projects are long-term, large-scale contracts and revenue is recognized on these according to their percentage of completion.

Membership, subscriptions and annual management fees provide varying levels of service within the different divisions of BSI Group, which can include access to BSI Group information services, 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.

iii. Copyright and royalty income

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

v. Exceptional items

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

w. Borrowing costs

Borrowing costs are recognized as an expense when incurred.

x. 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

2. Principal accounting policies continued

y. Inventories

Inventories which comprise of 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.

z. 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.

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	Year-end exchange rate	Average three-year exchange rate movement*	Exchange movement modelled*	Adverse impact on operating profit
Australian Dollar	**1.72**	**+1%**	**+10%**	**£0.2m**
Chinese Renminbi	**8.79**	**-2%**	**+10%**	**£0.2m**
Euro	**1.13**	**0%**	**+10%**	**£0.1m**
Japanese Yen	**151.62**	**0%**	**+10%**	**£0.2m**
US Dollar	**1.34**	**-4%**	**+10%**	**£1.4m**

* 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 £2.8m.

3. Financial risk management continued

Financial risk factors continued

b. Credit risk

The Group considers its exposure to credit risk at 31 December to be as follows:

	2017 £m	2016 £m
Cash and cash equivalents and fixed term deposits (Note 21)	**67.8**	48.1
Trade receivables (Note 19)	**75.9**	69.5
Other receivables	**44.9**	36.8
Total credit risk	**188.6**	154.4

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. The ageing profile of the Group's trade receivables is shown in Note 19. 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.

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 £67.8m 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 2017 and 2016.

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**

At 31 December 2016	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	66.0	0.4	2.3	5.9

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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

4. Critical accounting estimates and judgements continued

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.

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 24b.

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 Price 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 2017		
	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	0.25% p.a.	(18.7)	19.6
Inflation rate*	0.25% p.a.	6.6	(5.0)
Salary escalation	0.25%	1.4	
Life expectancy	Approximately 1 year	18.6	

* 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.

5. Segment information

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

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

The business streams reported are:

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

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

Corporate comprises those functions responsible for directional oversight and policy framework creation and compliance for the Group as well as other centrally held costs.

5. Segment information continued

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

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

The segment information provided to the Board for the reportable segments for the year ended 31 December 2017 is as follows:

	EMEA £m	UK Knowledge Solutions £m	Americas £m	Asia Pacific £m	Corporate £m	Group £m
Total segment revenue	**159.4**	**60.6**	**154.1**	**110.9**	**—**	**485.0**
Inter and intra-segment revenue	**(4.9)**	**(0.4)**	**(2.2)**	**(4.5)**	**—**	**(12.0)**
Revenue from external customers	**154.5**	**60.2**	**151.9**	**106.4**	**—**	**473.0**
Operating profit before exceptional costs	**16.5**	**17.0**	**23.9**	**12.0**	**(9.9)**	**59.5**
Depreciation and amortization	**(3.0)**	**(1.5)**	**(1.8)**	**(1.1)**	**(4.4)**	**(11.8)**
Finance income	**—**	**—**	**—**	**—**	**0.2**	**0.2**
Finance costs	**—**	**—**	**—**	**—**	**(2.5)**	**(2.5)**
Income tax expense	**(4.1)**	**(3.4)**	**(5.5)**	**(3.7)**	**0.5**	**(16.2)**
Total assets[3]	**78.8**	**21.9**	**94.7**	**63.8**	**76.1**	**335.3**
Total assets include:						
Additions to non-current assets (other than financial instruments and deferred tax assets)	**1.5**	**0.8**	**1.1**	**3.9**	**6.5**	**13.8**
Total liabilities[1,3]	**(33.9)**	**(20.0)**	**(31.8)**	**(26.6)**	**(102.7)[2]**	**(215.0)**

1 The measure of liabilities has been disclosed for each reportable segment and is provided to the Board.

2 Included here is an amount of £90.0m relating to pension liabilities for the Group which have not been allocated to the segments disclosed above.

3 The reconciliation of total assets and liabilities to those shown on the balance sheet is shown on page 98.

The segment information provided to the Board for the reportable segments for the year ended 31 December 2016 is as follows:

	EMEA £m	UK Knowledge Solutions £m	Americas £m	Asia Pacific £m	Corporate £m	Group £m
Total segment revenue	137.8	59.5	119.5	94.5	—	411.3
Inter and intra-segment revenue	(4.0)	(0.5)	(1.6)	(3.4)	—	(9.5)
Revenue from external customers	133.8	59.0	117.9	91.1	—	401.8
Operating profit before exceptional costs	13.2	17.0	17.5	9.8	(7.4)	50.1
Depreciation and amortization	(2.4)	(1.6)	(1.7)	(1.2)	(3.8)	(10.7)
Finance income	—	—	—	—	0.2	0.2
Finance costs	—	—	—	—	(2.3)	(2.3)
Income tax expense	(4.6)	(2.5)	(4.5)	(2.9)	0.7	(13.8)
Total assets[3]	75.0	21.4	93.4	52.6	65.6	308.0
Total assets include:						
Additions to non-current assets (other than financial instruments and deferred tax assets)	17.5	1.5	13.1	1.0	7.7	40.8
Total liabilities[1,3]	(32.0)	(21.0)	(34.9)	(22.8)	(114.4)[2]	(225.1)

1 The measure of liabilities has been disclosed for each reportable segment and is provided to the Board.

2 Included here is an amount of £104.1m relating to pension liabilities for the Group which have not been allocated to the segments disclosed above.

3 The reconciliation of total assets and liabilities to those shown on the balance sheet is shown on page 98.

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

5. Segment information continued

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

	2017 £m	2016 £m
Operating profit before exceptional costs for reportable segments	**69.4**	57.5
Corporate	**(9.9)**	(7.4)
Operating profit before exceptional costs	**59.5**	50.1
Acquisition costs	**(3.3)**	(2.4)
Property costs on refurbishment of head office	**(0.2)**	(0.4)
Restructuring and reorganization	**(0.7)**	—
Finance costs	**(2.5)**	(2.3)
Finance income	**0.2**	0.2
Profit before income tax	**53.0**	45.2

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

Reportable segment assets are reconciled to total assets as follows:

	2017 £m	2016 £m
Segment assets for reportable segments	**259.2**	242.4
Corporate assets	**76.1**	65.6
Reclassifications:		
Trade and other receivables and taxation	**1.5**	2.1
Total assets as per the balance sheet	**336.8**	310.1

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

Reportable segment liabilities are reconciled to total liabilities as follows:

	2017 £m	2016 £m
Segment liabilities for reportable segments	**112.3**	110.7
Corporate liabilities	**102.7**	114.4
Reclassifications:		
Trade and other payables and taxation	**1.5**	2.1
Total liabilities as per the balance sheet	**216.5**	227.2

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

	2017 £m	2016 £m Restated*
Knowledge	**60.7**	59.4
Assurance	**337.7**	295.5
Compliance	**74.6**	46.9
Revenue from external customers	**473.0**	401.8

* Entropy software is being used to enhance our certification activities and revenues are now shown within Assurance in 2017 having previously been shown under Compliance in 2016. Consequently 2016 Assurance revenue has increased by £2.9m and Compliance revenue has correspondingly decreased to align with the 2017 categorization.

Based on where the customer is located, revenue from external customers in the UK was £124.2m (2016: £117.1m), and the total of revenue from external customers in other countries was £348.8m (2016: £284.7m). The major components of the total of revenue from external customers from other countries were £157.8m (2016: £107.2m) in the US, £30.4m (2016: £26.9m) in China, £27.0m (2016: £24.4m) in Japan and £17.1m (2016: £16.3m) in Australia.

The total of non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets located in the UK was £48.2m (2016: £48.8m), and the total of these non-current assets located in other countries was £73.0m (2016: £74.3m).

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 (2016: none).

6. Revenue

Revenue recognized in the income statement is analysed as follows:

	2017 £m	2016 £m
Sale of goods	**8.9**	10.4
Rendering of services	**447.1**	374.8
Copyright and royalty income	**17.0**	16.6
Total revenue	**473.0**	401.8

7. Operating profit

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

	Note	2017 £m	2016 £m
Employee benefit expense	8	**222.1**	185.4
Depreciation of property, plant and equipment	13	**4.7**	4.2
Amortization	14	**7.1**	6.5
Provision for impairment of trade receivables	19	**0.9**	1.1
Operating lease payments for plant and machinery	10	**2.8**	2.5
Operating lease payments for land and buildings	10	**9.1**	8.0
Loss on disposal of tangible assets	13	**0.2**	0.4
Loss on disposal of intangible assets	14	**—**	0.1
Rental income from sub-lease of properties	10	**—**	(0.2)
Bad debts written off		**0.7**	0.5
Other exchange losses/(gains)		**0.7**	(0.8)
Auditors' remuneration:			
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements		**0.4**	0.5
Fees payable to the Group's auditors and their associates for other services:			
– The audit of the Company's subsidiaries pursuant to legislation		**0.1**	0.1
– Tax advisory services		**0.2**	0.2

Exceptional operating costs	2017 £m	2016 £m
Acquisition costs	**(3.3)**	(2.4)
Property costs on refurbishment of head office	**(0.2)**	(0.4)
Restructuring and reorganization	**(0.7)**	—
Total exceptional operating costs	**(4.2)**	(2.8)

Exceptional operating costs amounted to £4.2m (2016: £2.8m) and comprised:

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

In 2016, operating exceptional costs comprised:

- £2.4m of costs associated with the acquisitions of EHS, CSIR(IRE), Atrium and QMG, CES and CSIR(UK); and
- £0.4m of additional property costs from displacement arising during the refurbishment of the Group's head office in Chiswick.

The corporation tax impact of exceptional items is £0.6m credit (2016: £nil).

Notes to the consolidated financial statements continued

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8. Employee benefit expense

	Note	2017 £m	2016 £m
Wages and salaries (including termination benefits of £1.0m (2016: £1.3m))		**188.2**	156.1
Social security costs		**20.4**	16.9
Long Term Incentive Plan (LTIP) expense		**1.7**	2.4
Other pension costs – defined contribution plans	24a	**11.8**	10.0
Employee benefit expense charged in arriving at operating profit	7	**222.1**	185.4
Net pension finance costs	11, 24b	**2.5**	2.3
Total employee benefit expense charged in arriving at profit before income tax		**224.6**	187.7

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

	2017 Number	2016 Number
Production, assessment, training and laboratory	**2,891**	2,485
Sales and distribution	**810**	770
Administration	**632**	580
Total headcount	**4,333**	3,835

The headcount above includes external resource of 487 (2016: 362).

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 62 to 71.

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.

Other UK leases are up to 25 years and have less than ten years to expiry while 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.

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

	2017			2016		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
No later than 1 year	**8.3**	**1.8**	**10.1**	7.6	2.3	9.9
Later than 1 year and no later than 5 years	**24.1**	**1.8**	**25.9**	23.7	2.6	26.3
Later than 5 years	**12.5**	**—**	**12.5**	14.5	—	14.5
Minimum lease payments	**44.9**	**3.6**	**48.5**	45.8	4.9	50.7

The UK discontinued its sub-leases and therefore has no income from sub-leases this year (2016: £0.1m).

The future minimum sub-lease payments expected to be received under non-cancellable operating sub-leases at the balance sheet date are as follows:

Land and buildings	2017 £m	2016 £m
No later than 1 year	**—**	0.1
Minimum sub-lease receipts	**—**	0.1

11. Finance income and costs

	2017 £m	2016 £m
Bank interest receivable on cash, short and fixed term deposits	**0.2**	0.2
Finance income	**0.2**	0.2
Net interest on the net defined benefit pension obligation (Note 8 and Note 24b)	**(2.5)**	(2.3)
Finance costs	**(2.5)**	(2.3)

12. Income tax expense

	2017 £m	2016 £m
Current tax		
UK tax current year	**5.2**	6.2
UK tax prior years	**0.4**	(0.1)
Foreign tax current year	**12.1**	9.4
Foreign tax prior years	**0.7**	0.7
Total current tax	**18.4**	16.2
Deferred tax (Note 16)		
Origination and reversal of temporary differences	**(1.7)**	(1.7)
Prior year deferred tax adjustments	**0.3**	—
Impact of change in UK tax rate	**—**	(0.7)
Impact of change in US tax rate	**(0.8)**	—
Total deferred tax	**(2.2)**	(2.4)
Total income tax expense	**16.2**	13.8

The tax on the Group's profit before tax is higher (2016: higher) than the theoretical amount that would arise using the weighted average UK statutory tax rate of 19.25% (2016: 20%) applicable to profits of the consolidated entities as follows:

	2017 £m	2016 £m
Profit before income tax	**53.0**	45.2
Tax calculated at the weighted average UK statutory tax rate of 19.25% (2016: 20%)	**10.2**	9.0
Effects of:		
– Expenses not deductible for tax purposes	**0.9**	2.3
– Tax losses for which no deferred income tax asset was recognized	**0.1**	0.3
– Income not subject to tax	**(0.1)**	—
– Higher tax rates on overseas earnings	**4.5**	2.3
– Impact of change in UK tax rates	**—**	(0.7)
– Impact of change in US tax rates	**(0.8)**	—
Adjustments to tax charge in respect of previous periods:		
– UK	**0.2**	(0.1)
– Foreign	**1.2**	0.7
Total income tax expense	**16.2**	13.8

The Group effective tax rate (ETR) on profits before tax and goodwill impairment for the year is 30.6% (2016: 30.5%). The ETR at 30.6% comprises a current year tax charge of 27.9% (2016: 29.2%) and a net prior year tax charge of 2.6% (2016: tax charge of 1.3%) arising from net under-provided UK and foreign tax.

The ETR for the Group's underlying business operations for the current year is 28.0% (2016: 28.6%) after removing the tax impact of non-operational exceptional and finance costs, prior years' items, and the reduction in the USA tax rate.

The ETR at 30.6% is further reconciled from the UK statutory tax rate of 19.25% (a blended tax rate of 20% applicable in the period to 31 March 2017, reduced to 19% through the remaining period to 31 December 2017) by additional higher overseas Group taxes of 8.5% (e.g. USA 40%, Japan 35% and Australia 30% statutory tax rates), the prior year's tax charge of 2.6%, the credit impact of the reduction in USA tax rates of 1.5% and the net ETR increase of 1.75% for Group tax permanent and temporary differences and tax losses not recognized.

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for the year ended 31 December 2017

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 2016	11.2	6.5	1.1	21.5	40.3
Additions	—	0.9	6.6	1.3	8.8
Additions: acquisition of subsidiaries	—	—	—	0.4	0.4
Disposals	—	—	(0.1)	(1.0)	(1.1)
Reclassifications	0.2	3.3	(5.9)	2.4	—
Exchange differences	—	0.1	—	1.7	1.8
At 31 December 2016	**11.4**	**10.8**	**1.7**	**26.3**	**50.2**
Additions	**—**	**—**	**4.0**	**1.5**	**5.5**
Additions: acquisition of subsidiaries (Note 15)	**—**	**—**	**—**	**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**
Accumulated depreciation and impairment					
At 1 January 2016	(2.5)	(3.9)	—	(13.3)	(19.7)
Charge for the year (Note 7)	(0.3)	(0.5)	—	(3.4)	(4.2)
Disposals	—	—	—	0.7	0.7
Reclassifications	—	(0.1)	—	0.1	—
Exchange differences	—	(0.1)	—	(1.1)	(1.2)
At 31 December 2016	**(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**
Reclassifications	**—**	**—**	**—**	**—**	**—**
Exchange differences	**—**	**—**	**—**	**0.1**	**0.1**
At 31 December 2017	**(2.9)**	**(3.0)**	**—**	**(18.1)**	**(24.0)**
Net book value at 31 December 2017	**8.4**	**7.6**	**1.1**	**9.0**	**26.1**
Net book value at 31 December 2016	8.6	6.2	1.7	9.3	25.8

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 £0.5m (2016: £1.5m) has been contracted for but not provided for in the financial statements.

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 2016	48.1	15.9	14.0	16.7	2.2	96.9
Additions	—	1.2	1.7	—	0.4	3.3
Additions: acquisition of subsidiaries	18.8	—	—	9.5	—	28.3
Disposal	—	—	(0.4)	—	—	(0.4)
Exchange differences	5.1	0.1	0.4	3.4	0.1	9.1
At 31 December 2016	**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 (Note 15)	**1.7**	**—**	**—**	**1.2**	**—**	**2.9**
Disposal	**—**	**(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**
Accumulated amortization and impairment						
At 1 January 2016	(6.4)	(11.3)	(6.2)	(6.7)	(1.4)	(32.0)
Charge for the year (Note 7)	—	(1.5)	(3.1)	(1.6)	(0.3)	(6.5)
Disposals	—	—	0.3	—	—	0.3
Exchange differences	—	(0.3)	(0.1)	(1.2)	(0.1)	(1.7)
At 31 December 2016	**(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)**
Net book value at 31 December 2017	**65.3**	**5.3**	**5.2**	**18.0**	**1.3**	**95.1**
Net book value at 31 December 2016	65.6	4.1	6.6	20.1	0.9	97.3

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
Capital expenditure of £0.4m (2016: £1.3m) 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 operating segment.

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

	EMEA £m	Americas £m	Asia Pacific £m	Standards £m	Total £m
2017	**18.5**	**26.5**	**15.0**	**5.3**	**65.3**
2016	18.1	28.7	13.5	5.3	65.6

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 -0.55% and 8.23% (2016: -0.56% and 8.89%). Applying a zero growth rate on the cash flows beyond the three-year period would result in impairment on the Group's CGUs of £1.8m (2016: £1.0m).

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14. Intangible assets continued

Impairment tests for goodwill continued

Discount rates applied to the cash flow forecasts are pre-tax and derived using the capital asset pricing model and vary from 7.4% to 14.2% (2016: 8.1% to 13.8%) across the CGUs. The pre-tax discount rates would need to increase by more than 2.4% (2016: 1.6%) before any of the Group's CGUs suffer any impairment. The Group would incur an impairment in the value of its intangible assets of £0.1m, if the pre-tax discount rates were increased by 2.5% (2016: 1.7%).

15. Business combinations

i. Acquisition of Neville-Clarke Group ('Neville Clarke')

On 1 December 2017, the Group acquired 100% of the share capital of Neville-Clarke International Limited, a company incorporated in the United Kingdom, and its wholly owned subsidiaries based in Southeast Asia, for a cash consideration of £4.5m, adjusted for working capital and deferred consideration amounting to an additional £0.2m.

Neville Clarke was founded in 1988 as the international training arm of the UK headquartered international management and technology consulting company, PERA. From 2011, Neville Clarke went through an MBO, headquartered in Singapore, and has a presence in that market alongside Indonesia, Malaysia and the Philippines. It has a total of 150 employees across a total of seven offices. Its business is predominantly providing training and 'capacity building' in international management systems (i.e. recognized ISO standards) and associated skills (i.e. Kaizen, Six-Sigma, etc.) to domestic and international clients in the region. This acquisition takes place in one of the fastest growing regions in the world, with an average combined GDP growth of over 5% in 2017 and 2016.

BSI has the opportunity to learn from a wealth of experience, drawn from Neville Clarke's deep engagement with its customers at all levels. This has resulted in a rich seam of advanced products, learning pathways, sales and customer account management methods which we will adopt into our global business. This represents a product development and skills transfer opportunity for BSI, where Neville Clarke will take the lead in developing and training tutors on new global courses to accelerate our new product development and go-to-market programmes.

The following table summarizes the consideration paid for the acquisition and the fair value of assets acquired and liabilities assumed at the acquisition dates:

	Neville Clarke £m	Total £m
Cash transferred	4.5	4.5
Working capital adjustment	(0.5)	(0.5)
Deferred consideration	0.7	0.7
Total consideration transferred	4.7	4.7
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	2.3	2.3
Property, plant and equipment (Note 13)	0.1	0.1
Customer relationships and other acquired intangible assets (Note 14)	1.2	1.2
Trade and other receivables	0.7	0.7
Trade and other payables	(1.2)	(1.2)
Deferred tax asset (Note 16)	0.1	0.1
Deferred tax liabilities arising on acquired intangibles (Note 16)	(0.2)	(0.2)
Total identifiable net assets	3.0	3.0
Goodwill (included in intangibles) (Note 14)	1.7	1.7
Total	4.7	4.7

Goodwill of £1.7m 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 Neville Clarke been consolidated from 1 January 2017.

	Neville Clarke £m	Total £m
Revenue	5.7	5.7
Operating profit before exceptional costs	0.6	0.6

ii. Acquisition of Creative Environmental Solutions Corporation ('CES')

During the year, £0.3m was received in respect of the acquisition of CES in 2016. The adjustment to the purchase price related to the true-up of working capital and cash acquired.

16. Deferred tax

	2017 £m	2016 £m
Deferred tax assets:		
– To be recovered after more than twelve months	**21.2**	24.8
– To be recovered within twelve months	**5.6**	6.8
Total deferred tax assets	**26.8**	31.6
Deferred tax liabilities:		
– To be incurred after more than twelve months	**(6.1)**	(8.9)
– To be incurred within twelve months	**(1.1)**	(1.7)
Total deferred tax liabilities	**(7.2)**	(10.6)
Net deferred tax assets	**19.6**	21.0

Movement on the net deferred tax account

	2017 £m	2016 £m
At 1 January	**21.0**	17.2
Acquisitions of subsidiaries	**(0.1)**	(4.3)
Income statement tax credited (Note 12)	**2.2**	2.4
Tax (charged)/credited to equity relating to retirement benefit obligations	**(3.0)**	4.3
Exchange differences	**(0.5)**	1.4
At 31 December	**19.6**	21.0

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	Temporary differences £m	Total £m
At 1 January 2016	(6.0)	(6.0)
Acquisition of subsidiaries	(4.5)	(4.5)
Charged to the income statement	(0.2)	(0.2)
Exchange differences	0.1	0.1
At 31 December 2016	**(10.6)**	**(10.6)**
Reclassification[1]	**(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)**

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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 2016	0.7	14.0	3.6	4.9	23.2
Acquisition of subsidiaries	—	—	—	0.2	0.2
Credited/(charged) to the income statement	0.3	0.7	(0.1)	1.7	2.6
Credited directly to equity	—	4.3	—	—	4.3
Exchange differences	—	—	0.7	0.6	1.3
At 31 December 2016	**1.0**	**19.0**	**4.2**	**7.4**	**31.6**
Reclassification[1]	**1.3**	**—**	**—**	**0.6**	**1.9**
Acquisition of subsidiaries (Note 15)	**—**	**—**	**—**	**0.1**	**0.1**
Charged to the income statement	**—**	**—**	**(2.3)**	**(0.7)**	**(3.0)**
Charged directly to equity	**—**	**(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**

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 equity during the year was £3.0m (2016: credit of £4.3m) 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 £0.1m (2016: £0.3m) in respect of losses amounting to £0.5m (2016: £1.1m) that can be carried forward against future taxable income.

17. Financial instruments

a. Financial instruments by category

At 31 December 2017	Loans and receivables £m
Assets as per balance sheet	
Trade and other receivables excluding prepayments and accrued income	**84.8**
Fixed term deposits	**10.0**
Cash and cash equivalents	**57.8**
Total	**152.6**

At 31 December 2017	Cash flow hedges at fair value £m	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet		
Trade and other payables excluding non-financial liabilities	**—**	**80.8**
Derivative financial instruments	**—**	**—**
Total	**—**	**80.8**

At 31 December 2016	Loans and receivables £m
Assets as per balance sheet	
Trade and other receivables excluding prepayments and accrued income	77.4
Cash and cash equivalents	48.1
Total	125.5

17. Financial instruments continued

a. Financial instruments by category continued

At 31 December 2016	Cash flow hedges at fair value £m	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet		
Trade and other payables excluding non-financial liabilities	—	74.6
Derivative financial instruments	0.1	—
Total	0.1	74.6

b. Credit quality of financial assets

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

18. Inventories

	2017 £m	2016 £m
Finished goods and goods for resale	**0.1**	0.1
Consumables	**0.1**	—
Total inventories	**0.2**	0.1

19. Trade and other receivables

	2017 £m	2016 £m
Trade receivables	**79.1**	72.6
Less: provision for impairment of trade receivables	**(3.2)**	(3.1)
Trade receivables – net	**75.9**	69.5
Other receivables	**8.9**	7.9
Prepayments	**7.5**	7.1
Accrued income	**28.5**	21.8
Total trade and other receivables	**120.8**	106.3
Less non-current portion:		
– Other receivables	**(6.4)**	(4.9)
Current portion of trade and other receivables	**114.4**	101.4

Trade and other receivables are non-interest bearing and are generally on 30–60 day (2016: 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.

The provision for impairment is made on a case-by-case basis after due consideration to the likelihood of recovery. As of 31 December 2017, trade receivables of £33.4m (2016: £29.2m) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of net trade receivables is as follows:

	2017 £m	2016 £m
Current (not due)	**42.5**	40.3
Overdue by:		
<1 month	**18.2**	16.6
1–3 months	**10.9**	8.5
3–5 months	**2.5**	2.3
>5 months	**1.8**	1.8
Trade receivables – net	**75.9**	69.5

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

19. Trade and other receivables continued

As of 31 December 2017, trade receivables of £3.2m (2016: £3.1m) were impaired and fully provided for. The individually impaired receivables mainly relate to customers in unexpected difficult economic situations. The ageing analysis of these receivables is as follows:

	2017 £m	2016 £m
Overdue by:		
<1 month	0.3	0.2
1–3 months	0.3	0.2
3–5 months	0.3	0.6
>5 months	2.3	2.1
Provision for impairment of trade receivables	**3.2**	3.1

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

	2017 £m	2016 £m
British Pounds Sterling	33.2	28.9
US Dollars	43.6	38.2
Euros	12.1	11.6
Chinese Renminbi	4.8	4.6
Japanese Yen	3.8	3.7
Australian Dollars	3.7	3.6
Other currencies	19.6	15.7
Total trade and other receivables	**120.8**	106.3

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

	2017 £m	2016 £m
At 1 January	3.1	1.2
Provision relating to acquired subsidiaries	–	0.7
Provision for impaired receivables	1.1	1.6
Receivables written off during the year as uncollectable	(0.7)	(0.1)
Unused amounts reversed	(0.2)	(0.5)
Exchange	(0.1)	0.2
At 31 December	**3.2**	3.1

The creation and release of the provision for impaired receivables have been included within administrative expenses in the income statement. Receivables and their corresponding provisions 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.

20. Derivative financial instruments

	2017 £m	2016 £m
Current liabilities		
Forward foreign exchange contracts	–	0.1

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2017 were £22.0m (2016: £29.7m).

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 (2016: 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 £10.0m of cash in a fixed term bank deposit (2016: £nil), 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

	2017 £m	2016 £m
Cash at bank and in hand	**55.5**	45.1
Short-term deposits	**2.3**	3.0
Total cash and cash equivalents	**57.8**	48.1

No bank overdraft facilities were in use at 31 December 2017 (2016: £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 £57.8m (2016: £48.1m). 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:

	2017				2016			
	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	**–**	**27.5**	**11.7**	**39.2**	0.2	0.6	27.0	27.8
US Dollars	**2.4**	**0.4**	**4.5**	**7.3**	2.0	0.1	2.8	4.9
Euros	**0.1**	**0.4**	**1.8**	**2.3**	0.2	–	1.9	2.1
Chinese Renminbi	**–**	**8.6**	**–**	**8.6**	–	5.4	–	5.4
Japanese Yen	**0.4**	**–**	**0.1**	**0.5**	0.3	–	0.2	0.5
Australian Dollars	**2.3**	**1.2**	**–**	**3.5**	2.2	1.1	–	3.3
Other currencies	**0.5**	**1.2**	**4.7**	**6.4**	0.5	0.8	2.8	4.1
Total	**5.7**	**39.3**	**22.8**	**67.8**	5.4	8.0	34.7	48.1

22. Trade and other payables

	2017 £m	2016 £m
Trade payables	**10.9**	9.0
VAT and sales taxes	**4.0**	3.3
Other taxes and social security	**4.5**	4.0
Other payables	**15.2**	14.1
Accruals	**46.2**	44.2
Deferred income	**29.9**	28.8
Total trade and other payables	**110.7**	103.4
Less non-current portion:		
– Trade and other payables	**(11.1)**	(8.4)
– Deferred income	**(0.5)**	(0.4)
– Accruals	**(0.2)**	(0.2)
Current portion of trade and other payables	**98.9**	94.4

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

22. Trade and other payables continued

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

	2017 £m	2016 £m
British Pounds Sterling	**52.9**	46.6
US Dollars	**25.7**	25.8
Euros	**7.3**	7.6
Chinese Renminbi	**6.4**	4.8
Japanese Yen	**3.5**	3.6
Australian Dollars	**2.7**	3.4
Other currencies	**12.2**	11.6
Total trade and other payables	**110.7**	103.4

Trade payables are non-interest bearing and are generally on 30–60 day (2016: 30–60 day) terms. Other payables are non-interest bearing and are generally on 30–90 day (2016: 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.

23. Provisions for liabilities and charges

	Property provisions £m	Other provisions £m	Total £m
At 1 January 2016	1.2	0.5	1.7
Charged to the income statement	0.1	0.7	0.8
Unused amount reversed during the period	(0.3)	–	(0.3)
Amount utilized in the period	–	(0.1)	(0.1)
Exchange differences	0.1	0.1	0.2
At 31 December 2016	**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**

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

Other provisions 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:

	2017 £m	2016 £m
Non-current	**1.8**	1.6
Current	**0.3**	0.7
Total provisions for liabilities and charges	**2.1**	2.3

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. Retirement benefit obligations

The Group operates the following retirement benefit schemes:

a. Defined contribution scheme

The Group offers a group personal pension plan to all new UK employees. The associated costs for the year were £7.7m (2016: £6.6m).

In addition, a number of other money purchase schemes are operated in overseas companies, with costs for the year totalling £4.1m (2016: £3.4m).

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 £95m (2016: £99m) 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 2017 (2016: £12.5m).

Balance sheet

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

	2017 £m	2016 £m
Present value of defined benefit obligations	**440.3**	439.3
Fair value of plan assets	**(350.3)**	(335.2)
Net liability in the balance sheet	**90.0**	104.1

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

24. 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 2016	378.0	(307.1)	70.9
Amounts charged/(credited) to the income statement:			
Administration expenses	—	0.5	0.5
Interest expense/(income) (Note 8, Note 11)	14.1	(11.8)	2.3
	14.1	(11.3)	2.8
Re-measurements:			
– Return on plan assets, excluding amounts included in interest expense	—	(17.0)	(17.0)
– Gain from change in demographic assumptions	(13.3)	—	(13.3)
– Loss from change in financial assumptions	85.7	—	85.7
– Experience gains	(12.5)	—	(12.5)
	59.9	(17.0)	42.9
Contributions:			
– Employers	—	(12.5)	(12.5)
Payments from plans:			
– Disbursements	(12.7)	12.7	—
	(12.7)	0.2	(12.5)
At 31 December 2016	**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**

24. Retirement benefit obligations continued

b. Defined benefit schemes continued

i. UK defined benefit plan continued

Assumptions

The principal actuarial assumptions used were as follows:

	2017 % p.a.	2016 % p.a.
Rate of increase in salaries	**4.20**	4.30
Rate of revaluation in deferment	**2.20**	2.30
Pension increase rate:		
– RPI (min. 3%, max. 5%)	**3.65**	3.70
– CPI (min. 3%, max. 5%)	**3.20**	3.20
Discount rate	**2.45**	2.60
Inflation assumption – RPI	**3.20**	3.30
Inflation assumption – CPI	**2.20**	2.30

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 25.2 (2016: 26.0) years (men) or 26.2 (2016: 26.9) years (women). Life expectancy for a member currently aged 65 is 23.5 (2016: 23.8) years (men) or 24.7 (2016: 25.0) 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 2017		Value at 31 December 2016	
	£m		£m	
Schroder Diversified Growth Fund	**90.6**	**26%**	79.6	24%
Standard Life Global Absolute Return Strategies Fund	**63.7**	**19%**	62.1	18%
M&G Credit Fund	**20.3**	**6%**	—	—
Schroder Corporate Bond Fund	**50.7**	**14%**	47.3	14%
M&G European Loan Fund	**8.4**	**2%**	35.8	11%
Alcentra Credit Fund	**17.0**	**5%**	9.4	3%
Cash	**4.2**	**1%**	1.6	—
MetLife Annuity Policy	**95.4**	**27%**	99.4	30%
Total fair value of plan assets	**350.3**	**100%**	335.2	100%

Expected contributions to retirement benefit plans for the year ending 31 December 2018 are £13.5m (2017: £10.5m).

The weighted average duration of the defined benefit obligation is eighteen years (2016: 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 2017 is £1.4m (2016: £1.3m).

iii. Re-measurements of post-employment benefit obligations recognized in the consolidated statement of comprehensive income

	2017 £m	2016 £m
Gain/(loss) on re-measurements of defined benefit plan net liabilities		
– UK	**3.7**	(42.9)
– Overseas	**0.1**	(0.3)
	3.8	(43.2)
Tax on re-measurements of defined benefit plan net liabilities		
– Deferred tax (charge)/credit	**(3.0)**	5.3
– Current tax credit	**2.3**	2.2
Re-measurements of post-employment benefit obligations, net of taxes	**3.1**	(35.7)

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

25. Contingent liabilities

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

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

In relation to the disposal of businesses, the Group has given warranties and indemnities to the purchasers. In 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.

26. 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 24.

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 62 to 71. Emoluments paid to other members of the Executive Committee for employee services are shown in the table below:

	2017 £m	2016 £m
Salaries and short-term benefits	**3.4**	3.5
Other long-term benefits	**1.1**	0.8
Total emoluments	**4.5**	4.3

27. Interests in Group undertakings

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
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.	2711 Centerville Road, Suite 400, Wilmington, New Castle DE, 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	R. Gomes de Carvalho, 1311, 11 FL, Sao Paulo, SP 04547 005, Brazil	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
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

27. Interests in Group undertakings continued

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
BSI Group America Inc.	2711 Centerville Road, Suite 400, Wilmington, New Castle DE, 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.	17 Four Seasons Place, Etobicoke, Toronto ON M5L 1B2, Canada	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.	2-12-28 Kitaaoyama 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 Mexico S dr RL de CV	Edificio Virreyes, Pedregal 24, piso 12, Lomas Virreyes/Col. Molino del Rey, 11040 Ciudad de México, 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, Ill Villaggio Nr. 12, Persequor, Pretoria, South Africa	South Africa	100%	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 (incorporated 21 July 2017)	19 rue Alphonse de Neuville, 75017, Paris, France	France	100%	Business services
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

Notes to the consolidated financial statements continued

for the year ended 31 December 2017

27. Interests in Group undertakings continued

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
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 Secretaries Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Services and Solutions (West) Inc.	4 N 2nd ST., STE 1270, San Jose, CA 95113, 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 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
Creative Environment Solutions Corporation	39 West 37th Street, 14th Floor, New York NY 10018, United States	USA	100%	Business services
Espion UK Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
Hypercat Alliance Limited (acquired 28 July 2017)	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
Hypercat Services Limited (incorporated 9 February 2017)	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
Neville-Clarke (M) Sdn Bhd (acquired 1 December 2017)	Level 15-2, Faber Imperial Court, Julan Sultan Ismail, 50250 Kuala Lumpur, Wilayah Persekutuan, Malaysia	Malaysia	30%	Business services
Neville-Clarke (Singapore) Pte Ltd (acquired 1 December 2017)	15 Hoe Chiang Road, #12-02 Tower Fifteen, Singapore, 089316	Singapore	100%	Business services

27. Interests in Group undertakings continued

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
Neville-Clarke International Pte Ltd (acquired 1 December 2017)	15 Hoe Chiang Road, #12-02 Tower Fifteen, Singapore, 089316	Singapore	100%	Business services
Neville-Clarke International Sdn Bhd (acquired 1 December 2017)	Level 15-2, Faber Imperial Court, Julan Sultan Ismail, 50250 Kuala Lumpur, Wilayah Persekutuan, Malaysia	Malaysia	100%	Business services
Neville-Clarke International Limited (acquired 1 December 2017)	389 Chiswick High Road, London W4 4AL, England	England	100%	Holding company
Neville-Clarke Philippines, Inc (acquired 1 December 2017)	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 (acquired 1 December 2017)	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 2017;
- 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, the parent company statement of changes in equity, and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

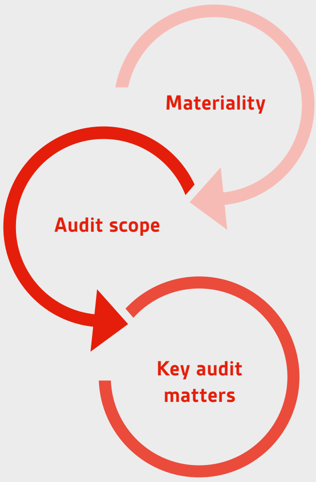
We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit 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: £740,000 (2016: £592,000), 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 the 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. We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Parent Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at significant component level to respond to the risk, recognizing that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Parent Company financial statements, including but not limited to, the Companies Act 2006, local laws and regulations applicable to the Pensions Regulator legislation and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, enquiries of management and review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud.

As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

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 the UK defined benefit pension scheme assets and liabilities	
The parent company has defined benefit pension plans with net retirement benefit obligation liabilities of £90.0m, which are significant in the context of the overall balance sheet of the Parent Company. The valuation of the pension liabilities and pension assets, in particular qualifying insurance policies relating to pension insurance buy-in, requires significant levels of judgement and technical expertise in choosing appropriate assumptions. The assumptions used to value the qualifying insurance policies and pension liabilities can be found on page 133 within Note 13 to the financial statements. Assets held under qualifying insurance policies exactly match the amount and timing of some of the benefits payable under the plan and are therefore valued at the present value of the related obligations. 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 and the pension insurance buy-in assets.	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 – including in respect of qualifying insurance policies for pension insurance buy-in – by comparing them to our independently developed benchmarks. We noted that mortality, discount rate and inflation assumptions were towards the middle 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 range position at which assumptions were established in prior years. From the evidence obtained we found the assumptions and methodology used to be appropriate. Based on the work performed we found that the assumptions used were supported by the evidence obtained.

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	£740,000 (2016: £592,000).
How we determined it	2% of total expenses.
Rationale for benchmark applied	The primary focus for the parent company is the management of pension and other centralized corporate expenses. Therefore, in line with prior years, a 2% rule of thumb has been applied to total expenses.

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

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.

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 and Directors' report, 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 2017 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 30 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; or
- the Directors' explanation on page 73 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 72, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members 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; or
- the section of the Annual Report on page 57 and 58 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.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 55, 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 parent company's members as a body in accordance with Chapter 3 of Part 16 of 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;
- 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;
- 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 2017.

John Minards (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 March 2018

Parent company balance sheet
as at 31 December 2017

	Note	2017 £m	2016 £m
Fixed assets			
Intangible assets	4	**6.2**	5.6
Tangible assets	5	**7.8**	7.3
Investment property	6	**5.6**	4.7
Investment in subsidiaries	7	**39.9**	39.9
		59.5	57.5
Current assets			
Debtors (including £14.5m (2016: £17.6m) due after one year)	8	**173.9**	169.0
Fixed term deposits	9	**10.0**	—
Cash at bank and in hand		**31.2**	29.5
		215.1	198.5
Creditors – amounts falling due within one year	10	**(134.1)**	(122.8)
Net current assets		**81.0**	75.7
Total assets less current liabilities		**140.5**	133.2
Defined benefit pension liability	13	**(90.0)**	(104.1)
Provision for liabilities	11	**(0.1)**	(0.3)
Net assets		**50.4**	28.8
Reserves			
Non-distributable reserves		**4.3**	3.6
Retained earnings		**46.1**	25.2
Total equity		**50.4**	28.8

The accompanying notes on pages 124 to 135 form an integral part of the parent company financial statements.

The financial statements on pages 122 and 123 were approved by the Board of Directors on 22 March 2018 and were signed on its behalf by:

Craig Smith FCCA
Group Finance Director
22 March 2018

Parent company statement of changes in equity

for the year ended 31 December 2017

	Retained earnings £m	Non-distributable reserves £m	Total £m
At 1 January 2016	38.3	2.5	40.8
Profit for the year	23.2	1.1	24.3
Movement in actuarial valuation of defined benefit pension scheme, net of taxes	(36.3)	—	(36.3)
At 31 December 2016	**25.2**	**3.6**	**28.8**
Profit for the year	**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**

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 £0.9m (2016: £0.7m). 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 2017

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.

2. Principal accounting policies continued

h. Dividend income

Dividend income is recognized when the right to receive payment is established.

i. Rental income

Rental income from sub-letting leased property in the UK is recognized on an accrual basis in accordance with the relevant agreements and is netted off against lease rental payments. The Company did not have any rental income from sub-leased properties in 2017.

j. 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.

k. 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.

l. Fixed term deposits

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

m. 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.

n. 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.

Notes to the parent company financial statements continued
for the year ended 31 December 2017

2. Principal accounting policies continued
o. 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.

p. 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	10%–33%

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).

q. 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.

r. 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.

2. Principal accounting policies continued

r. Provisions for liabilities and charges continued

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.

s. 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.

t. 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.

u. 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.

v. 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.

w. 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.

Notes to the parent company financial statements continued

for the year ended 31 December 2017

3. Critical accounting judgements and estimation uncertainty continued

Critical accounting estimates and assumptions continued

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 property, plant and equipment and Note 2 for the depreciation rates 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 2017		
	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	**0.25% p.a.**	**(18.7)**	**19.6**
Inflation rate*	**0.25% p.a.**	**6.6**	**(5.0)**
Salary escalation	**0.25%**	**1.4**	
Life expectancy	**Approximately 1 year**	**18.6**	

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

4. Intangible assets

	Computer software £m
Cost	
At 1 January 2016	16.7
Additions	1.1
At 31 December 2016	**17.8**
Additions	**3.4**
Disposals	**(1.9)**
At 31 December 2017	**19.3**
Accumulated amortization and impairment	
At 1 January 2016	(9.6)
Charge in the year	(2.6)
At 31 December 2016	**(12.2)**
Charge in the year	**(2.8)**
Disposals	**1.9**
At 31 December 2017	**(13.1)**
Net book value at 31 December 2017	**6.2**
Net book value at 31 December 2016	5.6

5. Tangible assets

	Short leasehold improvements £m	Asset under construction £m	Plant, machinery and office equipment £m	Total £m
Cost				
At 1 January 2016	2.6	0.5	4.0	7.1
Additions	0.6	5.3	—	5.9
Disposals	—	—	(0.1)	(0.1)
Reclassifications	3.0	(5.0)	2.0	—
At 31 December 2016	**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**
Accumulated depreciation and impairment				
At 1 January 2016	(2.5)	—	(2.1)	(4.6)
Charge in the year	(0.1)	—	(1.0)	(1.1)
Disposals	—	—	0.1	0.1
At 31 December 2016	**(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)**
Net book value at 31 December 2017	**4.9**	**0.1**	**2.8**	**7.8**
Net book value at 31 December 2016	3.6	0.8	2.9	7.3

6. Investment property

	2017 £m	2016 £m
Balance at 1 January	**4.7**	3.4
Fair value gains on valuation	**0.9**	1.3
Balance at 31 December	**5.6**	4.7

The estimated fair value of the Company's investment property is £5.6m (2016: £4.7m) 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

	2017 £m	2016 £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 27 to the consolidated financial statements.

Notes to the parent company financial statements continued

for the year ended 31 December 2017

8. Debtors

	2017 £m	2016 £m
Trade debtors	**0.4**	1.1
Amounts owed by group undertakings	**148.1**	139.8
Corporation tax receivable	**2.8**	2.2
Other debtors	**0.1**	—
VAT receivable	**0.8**	1.3
Prepayments and accrued income	**5.1**	5.2
Deferred taxation (Note 12)	**16.6**	19.4
Total debtors	**173.9**	169.0

Amounts owed by group undertakings include trade and finance amounts. The unsecured finance amounts of £50.2m (2016: £59.7m) have no fixed terms of repayment and are repayable on demand, but are interest bearing with the rates ranging between 2.0% and 8.8% (2016: 2.0% and 8.8%).

Deferred taxation includes £14.6m (2016: £17.5m) to be recovered after more than one year.

9. Fixed term deposits

The Group has invested £10.0m of cash in a fixed term bank deposit (2016: £nil), 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

	2017 £m	2016 £m
Trade creditors	**1.2**	2.3
Amounts owed to group undertakings	**113.1**	102.3
Social security and PAYE	**0.5**	0.5
Other creditors	**0.3**	0.3
Accruals	**12.7**	9.7
Deferred income	**6.3**	7.6
Derivative financial instruments	**—**	0.1
Creditors falling due within one year	**134.1**	122.8

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 £6.3m (2016: £6.8m) have no fixed terms of repayment and are repayable on demand, but are interest bearing with rates ranging between 3.0% and 5.4% (2016: 3.0% and 5.4%).

11. Provisions for liabilities

	Property provisions £m	Other provisions £m	Total £m
At 1 January 2017	**0.1**	**0.2**	**0.3**
Released to the profit and loss account	**—**	**(0.2)**	**(0.2)**
At 31 December 2017	**0.1**	**—**	**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.

Other provisions relate to employment related costs.

12. Deferred taxation

	2017 £m	2016 £m
Deferred tax assets:		
– To be recovered after more than twelve months	**15.4**	18.2
– To be recovered within twelve months	**2.0**	1.9
Total deferred tax assets	**17.4**	20.1
Deferred tax liabilities:		
– To be recovered after more than twelve months	**(0.8)**	(0.7)
Total deferred tax liabilities	**(0.8)**	(0.7)
Total net deferred tax assets	**16.6**	19.4

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 2017	**0.5**	**(0.1)**	**19.0**	**19.4**
Credited/(debited) to profit and loss account	**0.3**	**(0.1)**	**—**	**0.2**
Debited to current year reserves	**—**	**—**	**(3.0)**	**(3.0)**
At 31 December 2017	**0.8**	**(0.2)**	**16.0**	**16.6**

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 £1.4m (2016: £1.2m). 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 (2016: £12.5m).

Each of the wholly owned subsidiaries, BSI Assurance UK Limited, BSI Standards Limited and BSI Professional Services EMEA Limited, has provided a guarantee and indemnity to the Trustees of the UK pension fund with respect to all obligations and liabilities of the Company to make contributions to the scheme.

Notes to the parent company financial statements continued

for the year ended 31 December 2017

13. Pension obligations continued

b. Defined benefit scheme continued

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

	2017 £m	2016 £m
Present value of defined benefit obligations	**440.3**	439.3
Fair value of plan assets	**(350.3)**	(335.2)
Net liability in the balance sheet	**90.0**	104.1

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 2016	378.0	(307.1)	70.9
Amounts charged/(credited) to the income statement:			
Administration expenses	—	0.5	0.5
Interest expense/(income)	14.1	(11.8)	2.3
	14.1	(11.3)	2.8
Re-measurements:			
– Return on plan assets, excluding amounts included in interest expense	—	(17.0)	(17.0)
– Gain from change in demographic assumptions	(13.3)	—	(13.3)
– Loss from change in financial assumptions	85.7	—	85.7
– Experience gains	(12.5)	—	(12.5)
	59.9	(17.0)	42.9
Contributions:			
– Employers	—	(12.5)	(12.5)
Payments from plans:			
– Disbursements	(12.7)	12.7	—
	(12.7)	0.2	(12.5)
At 31 December 2016	**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**

13. Pension obligations continued

b. Defined benefit scheme continued

The major assumptions used for the updated actuarial valuation were:

	2017 % p.a.	2016 % p.a.
Rate of general increase in salaries	**4.20**	4.30
Rate of revaluation in deferment	**2.20**	2.30
Pension increase rate:		
– RPI (min. 3%, max. 5%)	**3.65**	3.70
– CPI (min. 3%, max. 5%)	**3.20**	3.20
Discount rate	**2.45**	2.60
Inflation assumption – RPI	**3.20**	3.30
Inflation assumption – CPI	**2.20**	2.30

Life expectancy at age 65 for a member currently aged 45 is 25.2 (2016: 26.0) years (men) or 26.2 (2016: 26.9) years (women). Life expectancy for a member currently aged 65 is 23.5 (2016: 23.8) years (men) or 24.7 (2016: 25.0) years (women).

Plan assets are comprised as follows:

	Value at 31 December 2017		Value at 31 December 2016	
	£m		£m	
Schroder Diversified Growth Fund	**90.6**	**26%**	79.6	24%
Standard Life Global Absolute Return Strategies Fund	**63.7**	**19%**	62.1	18%
M&G Credit Fund	**20.3**	**6%**	—	—
Schroder Corporate Bond Fund	**50.7**	**14%**	47.3	14%
M&G European Loan Fund	**8.4**	**2%**	35.8	11%
Alcentra Credit Fund	**17.0**	**5%**	9.4	3%
Cash	**4.2**	**1%**	1.6	—
MetLife Annuity Policy	**95.4**	**27%**	99.4	30%
Total fair value of assets	**350.3**	**100%**	335.2	100%

Expected contributions to retirement benefit plans for the year ending 31 December 2018 are £13.5m (2017: £10.5m).

The weighted average duration of the defined benefit obligation is 18 years (2016: 18 years).

14. Financial instruments

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	**Cash flow hedges at fair value £m**	**Other financial liabilities at amortized cost £m**
Liabilities as per balance sheet		
Creditors excluding non-financial liabilities	**—**	**127.8**
Derivative financial instruments	**—**	**—**
Total	**—**	**127.8**

Notes to the parent company financial statements continued

for the year ended 31 December 2017

14. Financial instruments continued

At 31 December 2016	Loans and receivables £m
Assets as per balance sheet	
Debtors excluding prepayments and accrued income and deferred taxation	144.4
Cash and cash equivalents	29.5
Total	173.9

At 31 December 2016	Cash flow hedges at fair value £m	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet		
Creditors excluding non-financial liabilities	—	115.1
Derivative financial instruments	0.1	—
Total	0.1	115.1

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 2017 the outstanding contracts all mature within twelve months (2016: twelve months) of the year end. The Company is committed to buy CHF 2.4m (2016: CHF 2.4m) and sell USD 27.5m (2016: USD 34.5m) 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 (2016: none).

15. Employees

	2017 £m	2016 £m
Wages and salaries	**15.9**	14.8
Social security costs	**2.0**	1.8
Long Term Incentive Plan (LTIP) expense	**1.2**	2.4
Other pension costs	**1.4**	1.2
Total employee benefit expense	**20.5**	20.2

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

	2017 Number	2016 Number
Production, inspection and laboratory	**17**	17
Sales and distribution	**34**	34
Administration	**169**	157
Total headcount	**220**	208

Disclosures in respect of Directors' emoluments can be found in the Directors' remuneration report on pages 62 to 71.

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 (2016: £0.2m).

17. Capital commitments

	2017 £m	2016 £m
Capital expenditure that has been contracted for but not provided for in the financial statements	**0.2**	2.4

18. Financial commitments

At 31 December 2017, annual commitments under non-cancellable operating leases were as follows:

	2017			2016		
	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**	1.9	0.1	2.0
Later than 1 year and no later than 5 years	**7.2**	**0.2**	**7.4**	7.2	0.1	7.3
Later than 5 years	**5.1**	**—**	**5.1**	6.9	—	6.9
Minimum lease payments	**14.1**	**0.3**	**14.4**	16.0	0.2	16.2

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 2017, the Company held foreign exchange contracts to the value of £22.0m (2016: £29.7m), all expiring within one year. The mark-to-market value of these contracts was £nil (2016: liability £0.1m).

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.

Notes

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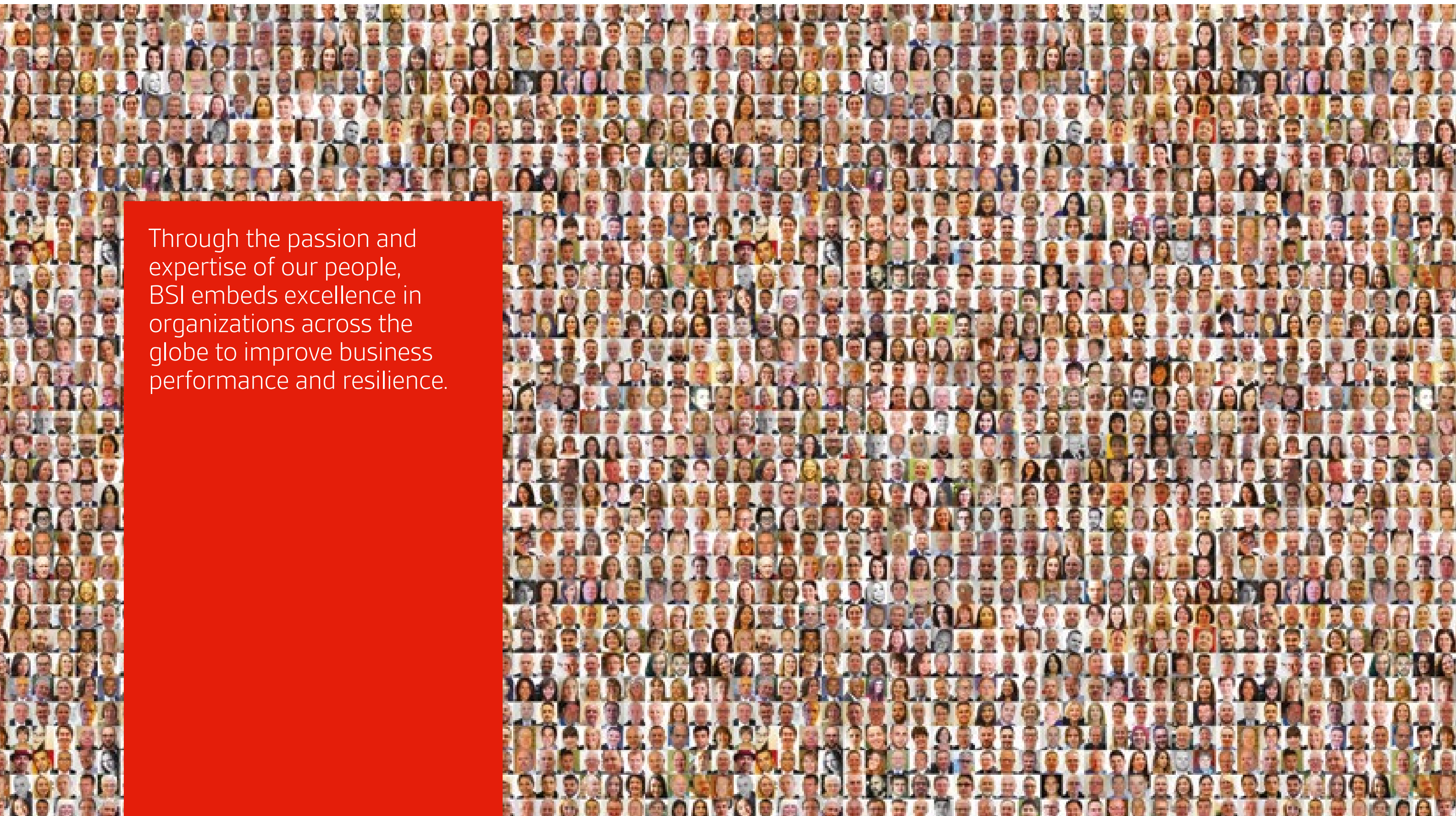

Through the passion and expertise of our people, BSI embeds excellence in organizations across the globe to improve business performance and resilience.