The British Standards Institution

Annual report and financial statements 2016

...making excellence a habit.

Making excellence a habit

At BSI we help to develop excellence by driving the success of our clients through standards. We enable others to perform better, manage risk and achieve sustainable growth.

For over a century our experts have been challenging mediocrity and complacency to help embed excellence into the way people, processes and products work. We make excellence a habit.

A successful business is...

Trusted

Secure

Responsible

Robust

Innovative

Agile

Resilient

Highlights of 2016

Revenue
£401.8m +21%
2015: £331.1m

Underlying operating profit
£50.1m +42%
2015: £35.4m

Operating profit
£47.3m +39%
2015: £34.1m

Cash
£48.1m -6%
2015: £51.0m

Net asset value
£82.9m +6%
2015: £78.4m

Average employees
3,835 +9%
2015: 3,525

- Strong global performance despite economic, political and social uncertainty
- Record underlying revenue for the seventeenth consecutive year
- Record underlying profit delivered organically and through acquisitions
- Weakness of Sterling boosted results from significant non-UK business
- 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, which is the parent company for the financial statements. 'BSI', 'BSI Group' or 'Group' means the Company and its subsidiaries. The BSI logo, 'Kitemark™', the 'Kitemark™' device, 'Supply Chain Solutions™' and 'Entropy Software™' are registered trademarks of The British Standards Institution in the UK and are registered, or in the process of registration, in other jurisdictions. Throughout this report the word 'underlying' is defined as 'before exceptional items and excluding the effects of material disposals'.

Contents

We help to embed excellence across organizations

We deliver a specialized portfolio of products and services to help our clients to develop their resilience so that they survive and prosper.

OUR REGIONS

…delivered through local relationships and resources

Read more on p04

OUR STREAMS

…specialized combination of products and services

Read more on p06

Our method:	Shape	Share
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.	Together with independent experts, we tackle the issues of today and tomorrow by shaping standards of excellence across products, processes and behaviours.	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 **p08**

OUR DOMAINS

...Organizational Resilience
across the business

Read more on **p10**

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 both improve their organizations and promote themselves with confidence.

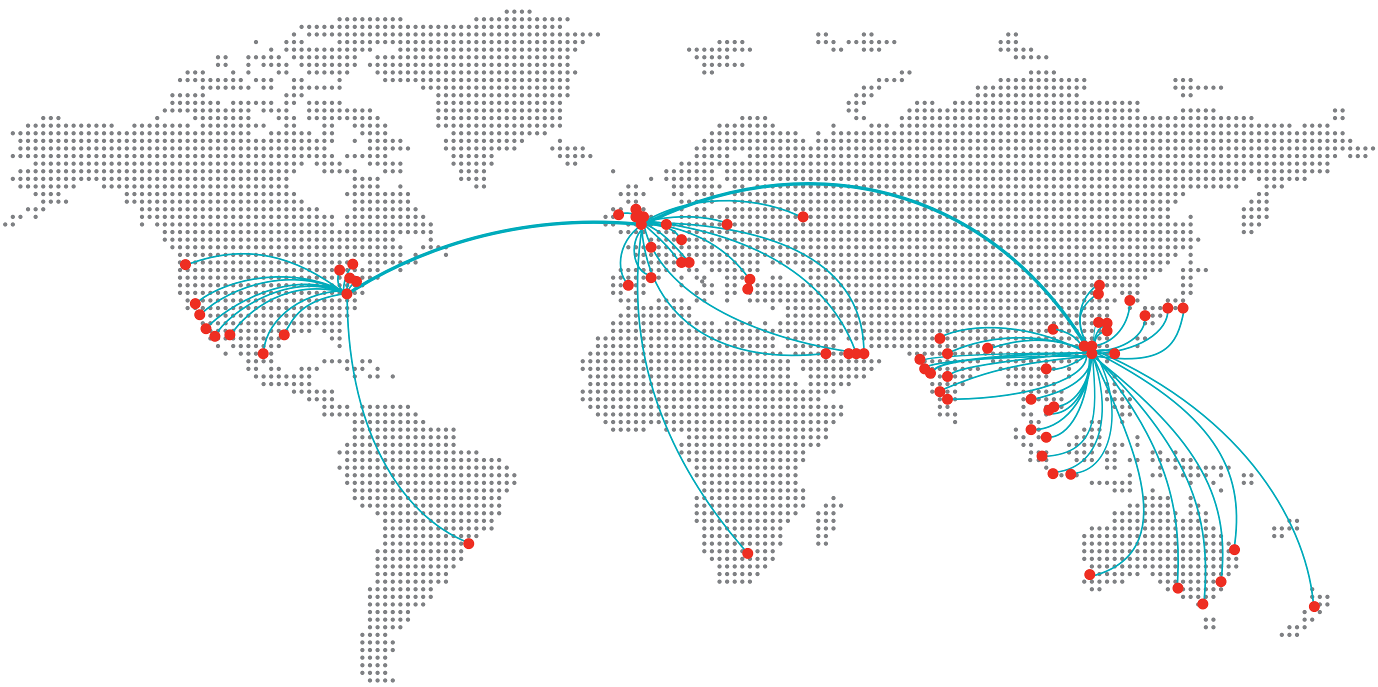
Support

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

Imparting our global expertise worldwide

BSI is an integrated global enterprise, able to serve clients in over 180 countries from 80 offices in 30 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

53%

of the Fortune 500

Read more on **p21**

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 in the Middle East and one in Africa.

We work with

64%

of the FTSE 100

Read more on **p20**

Asia Pacific

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

We work with

58%

of the Nikkei Index

Read more on **p22**

Resilient

Integrating ISO 9001:2015 and ISO 27001 made DENSO more resilient

DENSO IT Solutions Inc., located in Nagoya, Japan, made the successful transition to ISO 9001:2015 and integrated it with its ISO 27001 Information Security Management System.

Delivering efficiencies

When DENSO learned of the revision to ISO 9001 it identified this as a perfect opportunity to integrate the new standard with its ISO 27001 Information Security Management System and benefit from the efficiencies this would deliver.

The solution

As the two standards are now based on a common structure, Annex SL, which contains common themes such as leadership and risk-based thinking, integration made sense. DENSO now has much greater visibility on the business and it has helped it to spot problems early on and resolve them more quickly. It has also given DENSO a more holistic view of the organization and made it more resilient in the long term.

'We believe that the concepts of ISO 9001 and ISO 27001 have also been firmly embedded into the company, resulting in better corporate governance.'

Seiichero Shibayama
General Manager
DENSO IT Solutions Inc.

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

Read more on **p23**

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

Revenue

£59.4m

2015: £56.3m

Of Group revenue

15%

Assurance

Systems and Product Certification and Training

Read more on **p23**

Independent assessment of the conformity of a process or product to a particular standard 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

£292.6m

2015: £246.6m

Of Group revenue

73%

Compliance

Consultancy and Supply Chain Solutions

Read more on **p25**

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

£49.8m

2015: £28.2m

Of Group revenue

12%

Trusted

Smith & Nephew has saved time by having streamlined processes in place

Smith & Nephew Medical Ltd., a global manufacturer of advanced wound care dressings, has been working with BSI as its Notified Body since 1994.

A trusted brand

With a pioneering approach to the design of its products and services, Smith & Nephew needed a Notified Body with expertise and up-to-date industry knowledge to innovate and remain compliant. Working with BSI helps it to meet its requirements and build its reputation as a trusted brand.

The solution

Smith & Nephew selected BSI with its team of specialist scheme managers who can provide certification, auditing, and training services. In a sector with an ever-changing regulatory environment, and where speed to market is key, Smith & Nephew has found BSI's dedicated design dossier review service* an excellent way that to help bring product to market quickly. This service aids production planning, product launches and the initiation of subsequent global market registration activities.

'When we chose our Notified Body, it needed to be one that we could trust, had knowledge within our industry and was efficient in its processes... this is why we chose to work with BSI.'

Samantha Neilson
Regulatory Affairs Manager
Smith & Nephew Ltd.

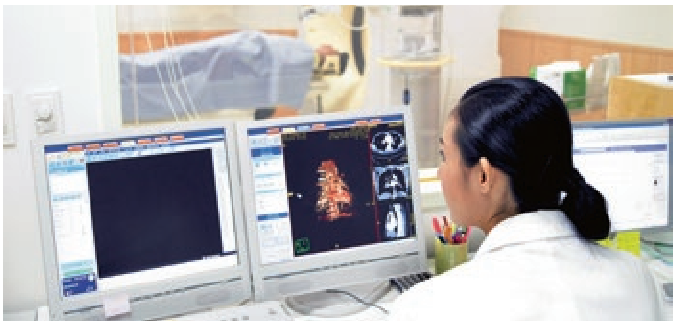
* BSI's dedicated design dossier review service is subject to availability.

Our chosen focus sectors

Although we work with over 81,000 clients across a wide range of industries we have our areas of specialization: those industry sectors where 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 area of influence 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 in the UK on the back of 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 requirements to face their future challenges.

Responsible

ISO 14001 helps Albert Bartlett know that its corporate responsibility is addressed in a progressive manner

Albert Bartlett, the UK's leading supplier of potatoes, has successfully transitioned to ISO 14001:2015.

A careful balance

It's becoming more and more important that organizations prioritize their environmental impact while maintaining a balance with profitability.

The solution

Albert Bartlett not only transitioned to the new standard successfully, but to support its sustainability and social responsibility goals, it expanded its certificate from covering just its headquarters to include its other seven sites. A key part of this process was to consider all of its stakeholders and partners and to analyse all of the related potential risks and opportunities. As a result everyone working at the organization is more aware of the responsibilities Albert Bartlett has to mitigate environmental impact and strive for continual improvement.

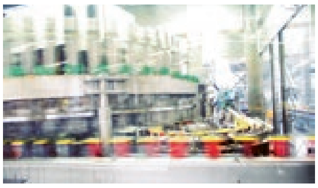
'ISO 14001:2015 will help us grow operationally while maintaining a firm grip on our environmental responsibility.'

Gordon Smith
Environmental Manager
Albert Bartlett Potatoes

Organizational Resilience

The ability of an organization to anticipate, prepare for, respond to and adapt to incremental change and sudden disruptions 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 movements across its products, services and processes in order to meet the needs of its clients over time, through to 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 information security-minded 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 the critical risks to minimize disruption and help global operational, financial and reputational exposures.

Agile

The transition to ISO 9001:2015 has helped Rescue Global's Strategic Leadership Team make faster, more informed, decisions

'ISO 9001:2015 enables organizational management because you feel better informed and more in control. The whole organization has become more agile.'

Becky Jones
Chief Risk Officer
Rescue Global

Rescue Global, the international non-governmental organization specializing in disaster risk reduction and response, has successfully undertaken transition to ISO 9001:2015.

Being agile, saving lives

Because of the uncertain and potentially dangerous nature of the work that Rescue Global does, it must be highly risk aware, which is one of the reasons that ISO 9001:2015 appealed to it.

The solution

The integration of quality and risk in the new ISO 9001:2015 allowed Rescue Global to link the two without duplicating effort. ISO 9001:2015 also recognizes the more complex nature of supply chains, which has prompted a useful review of how Rescue Global works with clients, partners and suppliers. ISO 9001:2015 has not been a simple box ticking exercise. By allowing the leadership team to make fast and better informed decisions, it complements the overall company strategy.

Our strategic vision

To become the global business improvement partner of choice.

Organizational Resilience

Develop leadership under the theme of Organizational Resilience

How we'll achieve this

Develop leadership in our focus sectors of Healthcare, Food, the Built Environment, and Aerospace and Automotive.

Develop leadership in our domains of Operational, Information and Supply Chain Resilience.

Develop our approach to social responsibility under the banner, 'enabling a resilient world'.

How we'll measure this

Through a series of financial and non-financial key performance indicators that will track our progress towards our financial targets and targets relating to client and employee satisfaction.

Read more on **p14**

Position BSI as a global standards organization

How we'll achieve this

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

Develop our Standards Publishing business into a knowledge solutions provider

How we'll achieve this

- Extend our knowledge services across standards, guidance and compliance related information to support clients at key points in their product lifecycle and supply chains.
- Further invest in technology solutions to provide ever improving 'smart' services and responsive content.

Build a sustainable, higher margin, Systems Certification business

How we'll achieve this

- Continue to invest in technology and training to ensure that we have the best and most appropriate service offering that meets our clients' needs.
- Optimize processes, ensuring effective operations and further enhanced client satisfaction.

'We aim to be the knowledge leader providing the most relevant smart content, the most trusted authority for approving products and processes, the leading provider of organizational learning and development and the most innovative developer of expertise for continual improvement.'

Expand our global Training business and improve its margins

How we'll achieve this

- Continue to invest in our Training Academy model to drive scale and profitability in established markets and critical mass in smaller markets.
- Embed commercial best practice processes and systems to deliver a best-in-class client experience with increased effectiveness and efficiency.

Globalize our Product Certification offering

How we'll achieve this

- Concentrating on our chosen sectors, invest in dedicated resources in selected BSI business units around the world.
- Implement our global operating system and communications network to streamline trading between internal and external laboratories and business stream management.

Build our Professional Services offering

How we'll achieve this

- Augment our organically developed expertise with selected acquisitions as we grow our consultancy business globally.
- Continue to develop our Supply Chain Solutions and business improvement software to ensure that these remain cutting edge.

Develop a resilient BSI for the future

We need to be resilient ourselves if we want to continue to be able to help our clients build their own resilience.

Develop our strategic resource planning
Plan to recruit, train, empower and engage employees to ensure a sustainable world-class workforce throughout our regions, streams, sectors and domains.

Develop resilient business processes and IT systems
Optimize the client journey and the employee journey with BSI to ensure that both are excellent experiences.

Develop strategic marketing
Continue to develop our global marketing and selling tools to optimize client experience and gain further synergy and efficiency.

Acquisitions

Continue to complement our organic growth with carefully selected, accretive acquisitions.

Tracking progress

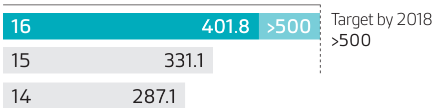
Our financial objective is to reach revenue of £500m by 2018 with enhanced profitability, balancing our global portfolio of business streams and chosen domains.

Financial

Revenue (£m)

£401.8m

+21%

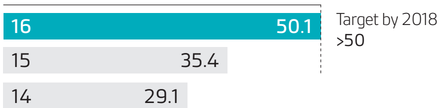


Our target revenue of £500m by 2018 will require organic growth, complemented by acquisitions, which will help us to build our critical mass across geographies, business streams, sectors and domains.

Underlying operating profit (£m)

£50.1m

+42%

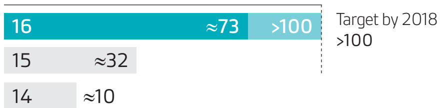


Our revenue growth will be profitable so that we can generate cash to reinvest into our business.

Revenue from acquisitions (£m)

≈£73m

+128%



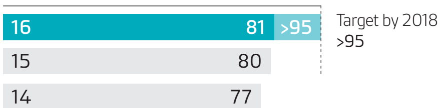
We will continue to make targeted, accretive acquisitions to build critical mass in our existing business streams and experience and expertise in our newer ventures.

Non-financial

Clients ('000)

81k

+1%

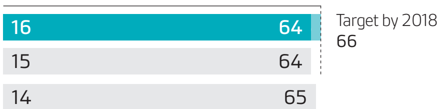


As we grow we will expand our client base and intend to deliver more of our business streams to each of our clients, increasing our ARPA*.

Client retention (%)

64%

Unchanged

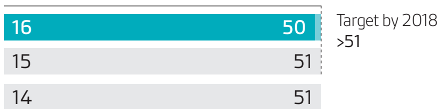


It is important that our clients appreciate our services and keep coming back, year after year, so that we can build long-term relationships with them.

NPS** client satisfaction

50

-1%

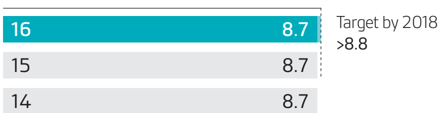


Our NPS remains at an extremely high level and it is important that we maintain it, proving that our clients like working with us and will keep coming back.

OSAT*** client satisfaction

8.7

Unchanged

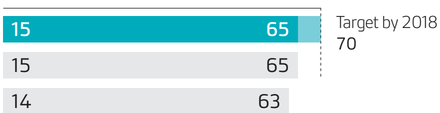


Our OSAT is high and we will continue to work to improve this further so that our clients continue to do business with us.

Employee engagement (%)

65%

Unchanged



We have improved our employee engagement score over recent years and aspire to be one of the top quartile of employers in the Hay index. We complete this survey biennially, with the next due in 2017.

* ARPA: average revenue per account.
** NPS: net promoter score.
***OSAT: overall satisfaction.

BSI performed strongly in 2016

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

I am pleased to be able to report that BSI performed strongly in 2016, recording higher levels of revenue and profit than ever before in its 115 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 new to us, without compromising BSI's financial strength. Economic conditions were reasonably stable in the majority of our markets in 2016, although more macro-economic nervousness developed during the year against the backcloth of the UK referendum on European Union membership, the US presidential election, changing global oil prices and uncertainty about the future of the Chinese economy. In consequence BSI began in 2016 to navigate through a combination of global conditions unprecedented in modern times but nevertheless ended the year in robust financial health. 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, delivering growth in underlying revenue for the seventeenth consecutive year, of 21% year on year to £401.8m, and growth in underlying operating profit of 42% to £50.1m.

The five acquisitions in 2016 were made without recourse to external debt and we ended the year with £48.1m in cash, only £2.9m lower 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 health. The strategic and operational investments we made during 2016 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.

Sir David Brown
Chairman

'BSI recorded higher levels of revenue and profit than ever before in its 115 years'

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

Those investments have also deepened our sector and domain knowledge and increased the effectiveness with which we deliver the benefits of it to our clients everywhere. In consequence, BSI's high reputation continues to be maintained and the power of its brand continues to strengthen.

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.

I am pleased to report that there were no changes to the Board of Directors during 2016 and none are foreseen in 2017.

Each year my role presents me with opportunities to work with BSI people everywhere, and 2016 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 116th year, the Board is confident that 2017 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
23 March 2017

'As we begin our 116th year, the Board is confident that 2017 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'

Underlying revenue (£m)

£401.8m

+21%

16	401.8
15	331.1
14	287.1
13	271.8
12	254.6
11	244.9
10	235.3
09	222.8
08	202.3
07	179.0

Underlying operating profit (£m)

£50.1m

+42%

16	50.1
15	35.4
14	29.1
13	28.3
12	31.2
11	28.7
10	27.3
09	26.2
08	24.8
07	21.4

Providing a healthy base for our long-term development

Our strong financial results have enabled us to invest further in the business, accelerating the strategy to take advantage of the many opportunities facing us.

Summary

Over the past few years BSI has become an integrated global enterprise, able to serve clients across the world from our growing network of offices. We are able to provide clients with geographical coverage across each of our business streams and are continuing to focus on industry sectors and business domains where we are particularly strong and emerging as thought leaders. We have a specialized product and service offering, combining our business streams of Knowledge, Assurance and Compliance to ensure that our clients' businesses become more resilient and are better able to stand the test of time. In 2015 we introduced this concept of 'Organizational Resilience' as the natural consequence of the building blocks of the strategy we have been putting in place over recent years. I wrote last year that we were to accelerate the implementation of this strategy. This process has continued in 2016 with our strong financial results enabling us to invest further in the business, accelerating while fine-tuning the strategy to take advantage of the many opportunities facing BSI to provide a healthy base for our own long-term development. Organizational Resilience remains the cornerstone of that strategy, not only to ensure that BSI remains a resilient business as it has done throughout its 115-year history, but also as we continue to expand our range of products and services to help our clients advance their own Operational, Information and Supply Chain Resilience.

2016 was another unprecedented year in terms of global events. Our home market, the United Kingdom, elected to leave the European Union in a referendum in June. This result led to a significant weakening of Sterling, which has continued thereafter. The UK stock markets surged due to the non-Sterling earnings of their component companies and the markets waited to see the longer-term, perhaps more permanent, effects of Brexit. Across the Atlantic, the US waited for its new Republican president to be inaugurated in early 2017 and the world, again, waited to see which policies will be

Howard Kerr
Chief Executive

'BSI delivered record results in 2016 in a period of significant economic, political and social uncertainty'

implemented from his manifesto. Oil and gas prices remained low compared to historic values, but actually almost doubled during 2016. The medium-term resilience of the Chinese economy was questioned. Terrorism and human migration provided a social backdrop to all of this. Many of our listed and private competitors in the testing, inspection and certification (TIC) sector continued to disappoint market expectations with their results, particularly as oil and gas prices refused to increase as far as they would have liked. BSI is not overexposed to this sector and is only present in the certification part of TIC. We complement our strong product lines in this area with those from our Knowledge and Compliance business streams in an increasingly balanced portfolio, so the comparisons are only partial, but we are not entirely immune to these market forces. BSI's strong performance in 2016 at constant exchange rates was further enhanced by the weakness of Sterling from the growing proportion of our revenue and profit arising outside the UK. Throughout 2016, BSI has continued to develop its geographical, business stream, industry sector and business 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 these issues it is pleasing to be able to report that BSI once again demonstrated its resilience to record the highest levels of revenue and profit in our history. Revenue for the year was £401.8m, an increase of 21% on the £331.1m reported for 2015. This increase can be subdivided into 9% organic growth, 3% from our five acquisitions in Europe and the US, and 9% from positive currency effects. New sales orders, which will translate into revenue over time, grew by 17%. Organically our sales orders grew by just 1% on a strong 2015, but this was augmented by 7% inorganic growth from our acquisitions and 9% from exchange rate changes and the weakening of Sterling during the year.

Summary continued

Our Assurance businesses enjoy a strong revenue driven by longer-term contracts with our clients so a single year of low sales order growth is no immediate cause for concern but will be a focus for 2017.

In recent years we have invested significantly in our business and the benefits of these investments and recent acquisitions have been apparent ever since and these, once again, had the effect of leveraging the strong revenue performance into even greater profit growth. Underlying operating profit was £50.1m, 42% higher than in 2015. This growth can be split into 31% organic, 1% inorganic and 10% exchange.

Our business remains in robust financial health. We ended 2016 with no external debt and £48.1m in cash. This is 6% or £2.9m lower than at the end of 2015, but is after investing £29.3m in acquisitions during the year, a further contribution of £12.5m into the UK defined benefit pension fund and continued investment into the infrastructure, systems and people of our business.

Structure

Day to day, our business is 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. In 2016 we started to enhance this further by recruiting highly qualified 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 is unchanged from that reported in 2015. However, the results of our 2016 acquisitions are all reported in the Compliance business stream and have strengthened this stream significantly, with further inorganic growth expected in 2017 from the full-year benefits of their results.

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 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 during 2016 and have experienced high levels of interest from executive management in 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.

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 2016 with further developments in our Knowledge stream, particularly in the way we work with our Subscribing Members and deliver 'smart' content, and in our Compliance stream, where we have also invested to enhance our Entropy Software and Supply Chain Solutions offerings.

Brexit

The decision of the UK to leave the European Union brings opportunities as well as risks to BSI. There are three areas of our business potentially impacted by this decision:

- **Standards.** BSI plans to remain an active participant in the European single standard system as the UK National Standards Body through continued membership in CEN and CENELEC which are independent of the EU. BSI's leading position in ISO and IEC will be unaffected.
- **International Projects.** Historically much of the work done by our International Projects division has been EU funded but, in recent years, BSI has secured additional sources of funding which will continue.
- **Product Certification.** It is important that UK Notified Bodies such as BSI maintain this role to ensure ongoing access to UK and European markets, utilizing the proven experience that currently exists.

BSI is working closely with the UK Government to support BEIS, DExEU and DIT in their Brexit preparations and negotiations to ensure the best possible result for our UK stakeholders and BSI itself.

In 2015 we invested in our IT infrastructure, increasing the capacity and resilience of our data centres. With these foundations in place, in 2016 we embarked upon an intensive IT investment programme aimed at aligning more closely the systems landscape with our business strategy while standardizing processes and systems wherever possible and improving the journey enjoyed by our clients and employees alike. With this as a strong base we have defined a roadmap for the future integration, co-ordination and development of our internal IT systems and business processes which will be implemented over the next three years to ensure that we remain in a strong position to expand our client and employee digital interface in line with our business requirements.

We also continue to invest in the further development of innovative new standards that not only meet the needs of the economy and society today but also anticipate the requirements of the future. Our standards development team has intensively engaged with current and new stakeholders in the UK and beyond to promote the benefit of standards and standardization. As a result, interest in what BSI has to offer has increased significantly.

In 2016 we pursued our strategy of combining organic growth with accretive inorganic growth and completed five acquisitions during the year. In March we acquired Espion Ltd., an information security consultancy business based in Dublin, Ireland. In August we acquired Atrium Environmental Health and Safety Services LLC, an environmental, health and safety (EHS) consultancy business based in Virginia, US. In September we acquired Creative Environmental Solutions Inc. (CES), a New York, US, based EHS consultancy business. In October we acquired Info-Assure Ltd., an information security consultancy business based in Farnborough, UK, and in November we acquired Quantum Management Group Inc.(QMG), an EHS consultancy business based in New Jersey, US. This unprecedented acquisition activity has helped us to expand our West Coast US EHS consultancy business into a more nationwide operation and establish a new information security consultancy business in the UK and Ireland. This is an exciting development for BSI which complements our current strength in this area and broadens our client offering.

People

In addition to our capital investments and acquisitions, we continued to recruit additional employees during 2016, particularly in the key client-facing activities of sales and delivery, as we supported our revenue growth. On average, during the year, we had 3,835 people working for BSI, an increase of 9% over 2015, of which 7% was organic. 268 employees joined us during the year as a result of our acquisitions. We are proud to employ a talented global workforce which provides the expertise that brings us competitive advantage and differentiates 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 make BSI what it is today.

As BSI grows, our strategic resource planning takes on a greater importance as we strengthen our team to face the increasing challenges facing as diverse an organization as ours. 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. Building and maintaining this expertise is, therefore, critical to our success and we have continued to invest in our employees' professional and career development.

During the year we have extended our 'Leadership Behaviour' development programme further down the management levels of BSI. This has provided a fascinating insight into the composition of our management teams and the individuals at BSI, leading to development plans to improve them still further and strengthen our organizational culture. We supported our long-standing 'Leadership Challenge' programme, which now boasts over 100 alumni, with 36 more delegates attending our 'Foundations of Management' course, which is intended for those managers aspiring to higher levels of our organization.

We also piloted a new 'Leading for Success' programme, geared towards middle management, with eight delegates in the UK and another twelve in the US. These development programmes are supported by the more operational level 'Standards and Publishing Academy', 'Sales Excellence Academy' and 'Operations Academy', meaning that our people continue to lead the way in their technical excellence.

'Our strategy of developing our business geographically, by business stream, by sector and by domain, provides a strong natural hedge against the most specific issues'

'We approach 2017 with confidence, albeit while watching carefully the developments of our business world. We continue to implement our strategy as we have done in prior years and look forward to driving BSI to further success in 2017 and beyond'

In the third quarter of 2015 we undertook our fourth global employee engagement survey, which showed positive progress on our 2013 survey. We undertake such a survey every two years and will do so again in 2017 but, in 2016, we have continued to work on development areas indicated in 2015 and it remains our objective to improve both our employee enablement and employee engagement scores still further in the next survey.

Clients

Once again we delivered our products and solutions to our growing client base and have supplied products and services to a record number of clients. Using a new, more accurate, measure this year we have worked with in excess of 81,000 clients over the past twelve months. This is an increase of almost 1,000 on 2015. Our average revenue per account (ARPA) increased by 14% during the year.

We work with clients of all sizes, from large, multinational companies to small and medium-sized enterprises alike. They benefit from working with BSI. We know this because they tell us so. Over 85% of clients who responded to our latest client satisfaction survey scored us eight or more out of ten for client satisfaction and just 4% considered themselves dissatisfied with our service.

These clients work from over 134,000 sites in 181 countries worldwide and, in our Systems Certification stream, have an average business tenure of eight years.

Our brand and reputation remain paramount to BSI. These are 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 keep coming back to us.

Outlook

BSI delivered record results in 2016 in a period of significant economic, political and social uncertainty. Our strategy of developing our business geographically, by business stream, by sector and by domain, provides a strong natural hedge against the most specific issues and so we approach 2017 with confidence, albeit while watching carefully the developments of our business world. We continue to complement this organic growth 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 look forward to driving BSI to further success in 2017 and beyond.

Howard Kerr
Chief Executive
23 March 2017

Performance by geographical region

BSI is an integrated global enterprise, able to serve clients in over 180 countries from 80 offices in 30 countries in three regions across the world. We have a presence on every continent.

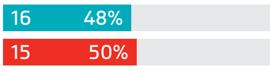
EMEA

Revenue
£192.8m
2015: £167.0m

Growth
15%
(+13% at constant exchange rates)

Employees (incl. head office)
1,852
2015: 1,685

Proportion of total revenue



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, the UK and each of our clusters showed material improvement on their performances in 2015, and this drove the region as a whole to annual revenue growth of 15%. This can be split into 8% organic growth, 5% inorganic growth from the effect of our 2016 acquisitions, and 2% growth from the weakening of Sterling compared to our other trading currencies.

A significant driver in our 2016 success has been the 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). This has led to increased demand for both our Systems Certification and Training businesses. This trend should continue in 2017.

For the UK Systems Certification and Training business 2016 was an outstanding year. The focused leadership established in 2014 and reinforced in 2015 continued to record further revenue and margin growth. The transition mentioned above combined with an enhanced service offering to our clients both contributed towards a strong performance. Improvements in back-office efficiencies drove further margin improvements, ensuring that the revenue growth was increasingly profitable. Our Product Certification business also performed well in its UK heartland, fuelled mainly by our high-end Kitemark™ certification schemes. In particular, we have made good progress in the Built Environment sector with our building information modelling (BIM) offering. Overall, this UK business reported revenue growth of 8%. As part of our commitment to client service we launched our 'Customer First' initiative in the UK, ensuring that every employee, whether client-facing or not, received training in BSI's client service standards, ensuring that we always continue to put our clients first. This programme is now being rolled out across EMEA.

In Central Europe, which increased its revenue, at constant exchange rates, by 16%, the largest part of this cluster is our business in Germany, which has experienced some difficulties in the recent past. Last year we reported that the turnaround of the Systems Certification and Training streams was well underway and this continued in 2016, with the business performing ahead of expectations and with improved profitability. In June 2016 we completed the closure of our German Medical Device Notified Body and the smooth transition of our clients into our UK Notified Body. Outside of Germany we have small businesses in Russia and Poland, which performed well in difficult economic conditions, and a larger business in the Netherlands, which reported strong revenue growth.

Each of the component parts of our Southern Europe cluster, Italy, Spain, France and Turkey, contributed to constant exchange rate revenue growth of 21% during the year for the cluster as a whole and increased their profits year on year. Given the economic issues across this group of nations, and the political and security problems faced by Turkey in particular, this again demonstrated the resilience of our business in this part of the world.

In the recent past our Middle East and Africa cluster has been adversely impacted by the effect of the relatively low oil and gas prices on many of our clients and, as a consequence, our business underwent some restructuring in the latter part of 2015 in order to be in a better shape to service its markets. These low prices continued to depress the markets throughout this cluster but it is pleasing to report constant exchange rate revenue growth of 15% on last year's results, and improved profitability. Our South African Systems Certification and Training business, acquired in 2015, delivered to expectations and is becoming an important local hub in which we have concentrated some African business that we used to service out of Dubai.

Our EMEA consultancy businesses benefited during 2016 from the acquisitions of Espion in Ireland in March and Info-Assure in the UK in October, enhancing our capability and services in cyber security and the Information Resilience domain. BSI now has a highly accredited business comprising 90 specialized consultants who provide a broad portfolio of products and services across the Information Resilience domain, including eDiscovery and Forensics, to our clients. In addition, our ISO 17025 (Cyber Laboratory Competence) capability will see our research, testing and supervisory control and data acquisition (SCADA) security related services evolve.

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 23 of this report. At constant exchange rates our EMEA Knowledge business reported revenue growth of 6% in 2016, while our Assurance and Compliance business grew by 16%, making 13% for our region as a whole.

Americas

Revenue
£117.9m
2015: £91.1m

Growth
29%
(+14% at constant exchange rates)

Employees
766
2015: 678

Proportion of total revenue

16	29%
15	28%

Offices
The US, Brazil, Canada and Mexico.

2016 was a challenging year for our Americas region on several fronts. We had to contend with quite divisive US presidential elections, which caused some reflection across the region and the world. The economic and political landscape in Brazil did not improve and affected the business mood in the country, causing our revenue to remain static, albeit at better margins following a refocusing of the business in 2015. We acquired three new consultancy companies in the eastern US and have begun an integration of these to create a nationwide EHS consultancy business. Also, with 2015 a significant recertification year for our Systems Certification clients, we have had to contend with the inevitable fall off of revenue subsequently and find new clients to fill this gap, although the transition to the new versions of ISO 9001 (Quality Management) and ISO 14001 (Environmental Management) have helped. Despite these circumstances our Americas region produced outstanding results in 2016, with revenue growth, overall, of 29%, which can be split 9% organic, 5% inorganic from the effect of our new acquisitions and 15% from the strengthening of the US Dollar and other regional trading currencies against Sterling during the year.

Several years of successful controlled growth in the US has led this to be one of our target markets for investment and this was again the case in 2016. Following the 2015 acquisitions of EORM in California and HCE in Texas, we complemented this portfolio this year with three further acquisitions on the east coast of the US, Atrium in Virginia in August, CES in New York in September and QMG in New Jersey in November. We now have a significant nationwide consultancy business which we will join together to leverage best practice where appropriate, while allowing each business to continue to harness its own expertise. This combined business is notable in that its component parts have skills in a variety of specific sectors, including Technology, Oil and Gas, Healthcare and the Built Environment. These play to strengths in the wider BSI business and provide important new product and service lines for our wider Organizational Resilience offering.

Trading-wise our new acquisitions all performed to plan but the combined West Coast business, now rebranded BSI EHS Services and Solutions (West) disappointed to a small degree. Our Texan business is one of the few exposures BSI has to the Oil and Gas sector and demand was below expectations. Our Californian business experienced employee attrition issues, although there was a recovery towards year end. We expect the combined business to be back on track to achieve its business plan in 2017.

Our core Assurance business had a good year across the region, with the small exception of the weaker Brazilian market mentioned earlier. Our Americas Training business, after a slow 2015 as the market awaited transition of our major standards, grew by 50% on 2015 at constant exchange rates. The Systems Certification business found new clients to fill the demand gaps in the year following recertification. We continue to reap the benefits in margin terms from the regional approach to operations management and delivery. Our Healthcare business grew by 15% at constant exchange rates and consolidated its position as the clear market leader in this industry sector in the US and Canada. Our Supply Chain business benefited from new focused leadership and grew by 33% at constant exchange rates from its small but growing base, opening an International Development Centre in Chennai, India, during the year to support software development for important elements of our Supply Chain Resilience domain offering, and our Entropy Software.

Outside the US and Canada, which are managed increasingly as a single entity, we have businesses in Brazil and Mexico. The travails of Brazil have already been mentioned and it is testimony to the management structure and the regional approach to operations that, in spite of these, we have been able to increase profits in this market. Mexico performed very well and continued to be one of our more successful business units, building on the momentum of previous years to record over 20% annual revenue growth at constant exchange rates, as well as improving profit margins. From our Mexican base we are starting to develop our presence in Latin America as demand for our products becomes ever more global.

Asia Pacific

Revenue
£91.1m
2015: £73.0m

Growth
25%
(+9% at constant exchange rates)

Employees
1,217
2015: 1,162

Proportion of total revenue
16 23%
15 22%

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

The twelve countries comprising our Asia Pacific region continued to increase their importance to BSI in terms of both revenue and profit. Revenue grew by 9% on 2015 at constant exchange rates, helped by the transition to the new versions of ISO 9001 (Quality Management) and ISO 14001 (Environmental Management). Our business transformation project, which we started in 2014 and have continued thereafter, improved efficiency to drive more significant value to the Asia Pacific business. One of the issues facing the region is the slow start to the calendar year, caused by the slowdown in business across the majority of the region due to the Chinese New Year celebrations. In the past this has resulted in a back-ended profit delivery. This cannot be mitigated entirely, but careful planning and marketing have led to our break-even point being brought forward by seven months in the past two years. This has led to a far better balanced business as a base for future growth.

Our physical expansion in the region continued apace and we opened an office in our twelfth country, New Zealand, the 30th for BSI as a Group, as well as moving to larger, more appropriate, premises in Melbourne, Australia; Kuala Lumpur, Malaysia; Seoul, Korea; Hanoi, Vietnam and Jakarta, Indonesia. We continue to search for further opportunities for geographical expansion as our business develops.

Two of our larger units in the Asia Pacific region, China and Japan, performed favourably in 2016, with significant revenue growth and improved profit margins. Another, Australia, consolidated its excellent 2015 revenue performance and again showed further efficiency gains in its profitability. The strongest performance in the year came from our group of ASEAN countries, Singapore, Thailand, Malaysia, Vietnam and Indonesia, whose constant exchange rate revenue growth of 21% drove a significant increase in profit. On the other hand, our issues in South Korea continued, with the 2015 client attrition proving more difficult to overcome than we had expected. Revenue fell slightly on 2015 levels, although our efficiency programme began to bear fruit and led to an improvement in profitability. Our stalwart countries of India and Taiwan continued their steady and profitable growth trajectory.

Asia Pacific played a key role in the development of the BSI Organizational Resilience offering during 2016, including writing the five-step process for self-discovery which has proved to be an excellent drawcard and framework from which to promote the BSI product portfolio in the region, under the three domains of operational, information and supply chain resilience. Thirty four Organizational Resilience events were held across Asia Pacific in the year, attracting over 3,000 clients.

The region continued to be the driving force behind our progress in the Food sector, housing the Global Food Centre of Excellence and providing the guidance as focus on this important sector develops into EMEA and the Americas. New product offerings in this sector were launched in the region, including Forest Stewardship Council Chain of Custody, Gluten Free Certification, the Roundtable on Sustainable Palm Oil (RSPO) Chain of Custody and PAS 96 (Food and Drink Defence). In addition, BSI was selected by the American National Standards Institute (ANSI) to pilot the new US-FDA Food Safety Modernization Act which requires all US food companies and foreign suppliers to meet US food safety and ingredient regulatory requirements. New training material was developed in Asia Pacific and we launched three programmes, including PAS 7000 (Supply Chain Practitioner Auditor Training) and PAS 96 (Food Fraud and Defence).

We continued to strengthen our leadership teams across the region, with senior management changes in Japan being announced to support the newly restructured business. The importance of strategic resource development continues to be at the forefront of our strategy, particularly due to the geographically diverse nature of our Asia Pacific business, which can limit intra-regional mobility. Our investment in employee training continued, as we strive for resilience in our own businesses, while helping our clients to ensure this in their own.

Performance by business stream

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

Knowledge

Revenue
£59.4m
2015: £56.3m

Growth
6%
(+5% at constant exchange rates)

Proportion of total revenue

16	15%
15	17%

Following on from its recent history of above-market revenue growth, our Knowledge Solutions business delivered another solid year, with revenue growing by 5% at constant exchange rates in a mature market. The best performing areas of the business were Copyright and Royalties, Subscriptions and our International Projects consultancy business, offset by slight declines in revenue in Document Sales and Funding. Our growth areas are particularly significant as they show the continued strength in our key focus areas of our online subscription model, direct digital content and international partnering.

After the important revision of the major ISO 9001 (Quality Management) and ISO 14001 (Environmental Management) standards in 2015, the absence of any new major standards or revisions in 2016 had a detrimental effect on our single copy revenues both in the UK and internationally compared to 2015, although we exported to as many countries across the world as before. With respect to Subscription revenues, the good growth in our flagship British Standards Online (BSOL) product and our Compliance Navigator digital solution for the Healthcare sector was offset slightly by declines in our Perinorm and Eurocodes products. Our International Products consultancy business had a good year. A strong pipeline coming into 2016 was enhanced further by large projects won in Belarus and Belgium and smaller wins in Turkmenistan, Turkey and the Caribbean. A number of these projects have won funding from both the European Union and the UK Government since the results of the UK EU referendum were declared but, in addition to our EU-funded projects, we continue to search for alternative sources of demand for these services.

Our investment in digital solutions across our business continues. A major relaunch of the eShop is planned for the latter part of 2017 and this will enhance the link from our shop to the other Knowledge Solutions offerings, allow better engagement with clients and consolidate our web presence in our business sector. In addition to this significant investment, work continued on the digitalization of our content. This project is also expected to be completed in 2017.

In the rapidly evolving global market, standards are expected to continue to play an integral part. We maintain our focus on our clients' needs and expectations and meet these through our developing digital capabilities, both as a standards developer and as a knowledge solutions provider. Our existing scale and market leadership provide a robust level of resilience to ever changing market pressure. Our continued growth demonstrates the trust that our clients place in BSI and we remain a trusted partner to them as they enhance their own resilience by using our products. With our current and planned investments in the digital marketplace, our presence in all areas of our chosen markets and our resilience we expect 2017 to be another year of growth for our Knowledge Solutions business.

Assurance

Revenue
£292.6m
2015: £246.6m

Growth
19%
(+9% at constant exchange rates)

Proportion of total revenue

16	73%
15	74%

Systems Certification

Our Systems Certification stream has faced increased demand since the two most popular standards, ISO 9001 (Quality Management) and ISO 14001 (Environmental Management), were updated in 2015. Certified companies have to complete transition to the new versions of these standards by September 2018 and require additional support to achieve this. The majority of our clients have not yet made this transition, with the uptake of the new versions very different between geographies. 2016 revenues, while adversely affected by approximately two percentage points by an internal reclassification to other streams, still showed an increase, at constant exchange rates, of 3%. The majority of our countries contributed to this increase, although there were weaker performances from Australia, South Korea and Southern Europe. In line with our strategic initiative we have made further progress in improving our operating margins for Systems Certification, thanks to efficiency gains and price re-calibration.

Following ISO 9001 (Quality Management) and ISO 14001 (Environmental Management), new versions of quality standards relating to the Automotive and Aerospace sectors were published in late 2016, while the new international standard, ISO 45001 (Occupational Health and Safety Management), is expected to be published in 2017, replacing OHSAS 18001 (Occupational Health and Safety Management). These standards are the core of the BSI Operational Resilience offering and we are well positioned to support our clients to obtain value when they embrace them. We also launched new services in the Information Resilience domain for ISO 27017 (Cloud Security) and ISO 27018 (Information Technology Security) and enjoyed strong demand for ISO 22301 (Business Continuity Management).

Assurance continued

Systems Certification continued

From an industry sector point of view, we have made significant progress in developing our Food sector offering. From its genesis in the acquisition of NCSI in Australia, we have subsequently invested further in our Food Centre of Excellence, which has developed the business significantly across Asia Pacific. Recently we have extended this presence to EMEA and the Americas and will continue to develop this global business as one of our focus sectors.

Product Certification

The progress reported over the past three years in our Product Certification business stream was maintained in 2016, with constant exchange rate revenue growth of 10%. We have invested heavily in sales and marketing capability in our traditional markets and, for the first time, in the US. Further investments are planned for 2017. Geographically there was a strong performance in our UK heartland, based on our high-end Kitemark certification schemes. Constant exchange rate growth rates in our key target markets of China, Japan and the US were each over 20%, exceeding our expectations, although economic and market-related issues in Southern Europe and the Middle East have led to lower growth than we were anticipating in these clusters.

Our standout product developments in the year are led by our building information modelling (BIM) Kitemark. This has built on the verification scheme we launched in 2015 and has attracted many new blue-chip clients to BSI who, in some cases, brought their associated Systems Certification business to us as well. Also our 'Cyber Essentials' and 'Cyber Essentials Plus' schemes have been well received in the market, attracting new clients to BSI and, in some cases, leading to certification for the first time. Finally, there are major changes in the personal protective equipment and gas appliances markets expected in the next 18 months, when both of these directives will be replaced by regulations. BSI is seen as a knowledge leader in these areas and many current and prospective clients are looking to us for support during these challenging transitions.

Training

2015 was a challenging year for our Training business stream, as many of our clients chose to delay their training requirements until the new versions of ISO 9001 (Quality Management) and ISO 14001 (Environmental Management) became available. The pleasing consequence of this in 2016 was that there was a backlog of clients needing to embed these revised versions into their management systems and so demand for our training increased significantly, leading to revenue growth of 22% at constant exchange rates. As a result, we held 25,000 days of training for more than 134,000 delegates during the year, an increase of 19% on last year. Margins improved as well, due to the increased volume and pricing initiatives in some of our markets, notwithstanding the continued investments in our Training stream infrastructure, product offering and delivery capabilities.

As well as growing our public and in-house training, we introduced combined assessment and training services to enable clients to build capacity to transition to these new standards and assess their results through gap analysis. We also introduced 36 new global training courses during 2016, including specialist courses for our focus industry sectors of Healthcare, Food, the Built Environment, Aerospace and Automotive as well as for the Product Certification stream and the Information Resilience domain. Our client satisfaction ratings improved during the year for tutor subject knowledge, competence and professionalism.

Our growth was underpinned by continued investment in people, products and services as part of our 'BSI Training Academy' franchise model, resulting in accelerated performance, particularly in the Americas, ASEAN and Central Europe. However, South Korea, the Middle East, Taiwan and Australia did have more difficult years and fell short of our expectations.

Healthcare

Our Medical Device Certification and Audit activity demonstrated very strong growth in 2016 with global constant exchange rate revenues increasing by 20% and all regions achieving double-digit growth. Our core EU Certification activities and ISO 13485 (Quality Management, Medical Devices) both performed well.

BSI's footprint in the medical device regulatory market continues to expand from a geographical perspective, with several of our newer product offerings really beginning to gain scale and momentum. For example, we consolidated and firmly established BSI as a leading provider of the multi region 'Medical Device Single Audit' programme, providing the majority of audit activity in the three-year pilot, which has now transitioned to a formal scheme. We also support government-backed programmes in Saudi Arabia and Malaysia.

At a critical time of material changes to global medical device regulation, we invested heavily in client education through multiple media channels including formal training, face-to-face roadshows, speaker events, webinars and white papers. This is part of our strategic objective to help our client base to enhance their Operational Resilience by successfully navigating the increasingly challenging and complex regulatory world.

Compliance

Revenue
£49.8m
2015: £28.2m

Growth
76%
(+55% at constant exchange rates)

Proportion of total revenue

16	12%
15	9%

Consultancy

BSI invested heavily in its consultancy offering in 2016, with five acquisitions on both sides of the Atlantic Ocean. This resulted in overall revenue growth of 85%, which included 24% from exchange rate gains due to the weakening of Sterling against other trading currencies during the year.

In Europe we acquired Espion in Dublin, Ireland and Info-Assure in Farnborough, UK during the year to establish an information security consultancy business. By the end of the year we had over 120 employees in this highly accredited business working from these two offices and others in London, UK and New York, US, in the domain of Information Resilience and cyber security. This product portfolio extends through eDiscovery and forensics expertise to a capability providing services to our clients' senior legal teams. These businesses will be rebranded BSI Cyber Security and Information Resilience (CSIR) during 2017.

In the Americas we continued to build a nationwide Environmental, Health and Safety consultancy business with the east coast US acquisitions of Atrium in Virginia, CES in New York and QMG in New Jersey, with further offices in Wisconsin and Ohio. By year end, when combined with our 2015 US west coast EHS acquisitions we had around 340 employees working from 14 offices across the country. During 2016, our business provided environmental permitting and regulatory compliance, safety, industrial hygiene and ergonomics services to over 700 different clients in a broad range of industry sectors. The business grew profitably during 2016 despite depressed oil and gas prices adversely affecting our Texas business. The West Coast business was rebranded BSI EHS Services and Solutions (West) in March.

Supply Chain Solutions

Our Supply Chain Solutions business benefited from a refocus of its structure and delivered strong revenue growth of 55% at constant exchange rates and an improvement of its profit margins. During the year we successfully launched a global advisory offering concentrating on security and social responsibility across the supply chain and delivered significant opportunities in Europe and the US across the technology, pharmaceutical and retail industry sectors.
We have established ourselves as a key business partner for the largest supply chain security association, the Supplier Compliance Audit Network (SCAN), administering over 3,500 audits in 2016 using our Supplier Compliance Manager (SCM) product to house the audits and deliver robust analytics and guidance. The broadening of acceptance for our product portfolio, software, consultancy, programme management and training services, gives great opportunities for future growth.

Entropy

Our Entropy compliance software reversed its 2015 revenue decline and showed a small constant exchange rate revenue growth of 3% in 2016, but with a significantly improved profit margin. Client satisfaction of our Entropy v5 product is at an all-time high and our Entropy solutions have been further integrated into the broader BSI business with two strategic approaches used to extend value to our clients, enhanced assessment and enhanced consultancy and, therefore, in future it will become increasingly difficult to separate Entropy from our other product offerings. We created an International Development Centre in Chennai, India, which has globalized our software development and quality assurance team, enabling our team to respond more quickly to client requests and added functionality.

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. The Board also understands that it is responsible for establishing the level of risk appetite that it feels appropriate and for reviewing the effectiveness of the risk management system, in relation to this risk appetite, on an ongoing basis.

We have a continual and dynamic process for identifying, evaluating and managing the risks in the business, based on ISO 31000 (Risk Management). Risks identified are logged on risk registers within all business streams, 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, in the spirit of collaboration. Risk management is a standing item on all key management meetings and our Group Internal Audit and Risk department ensures that regular reviews are undertaken at all levels within the business. The Board receives and reviews a risk management report at every Board meeting. The Board also formally reviews the risk management process, information security, business continuity and health, safety and environmental issues every year with the Group Internal Audit and Risk department, and conducts a robust assessment of the principal risks. The Board considers the risk management system to be effective.

What we did in 2016

During 2016, we commissioned an external review of our risk management process. As a result, we have improved our understanding of our current internal controls and mapped these against our risk appetite, implementing appropriate action plans where necessary.

Last year we reported that, following an independent audit by the Chartered Institute of Internal Auditors, a more risk-based internal audit programme was being devised for 2016. In support of this, and to enhance still further the risk management process improvement initiative, we implemented a specialist integrated internal audit and risk management software to replace our legacy in-house system.

We have been recertified to ISO 27001 (Information Security Management) for our head office in 2016 and have continued to introduce information security management systems policies and procedures throughout BSI globally. We have also been recertified to ISO 14001 (Environmental Management) and OHSAS 18001 (Occupational Health and Safety Management) for our head office during 2016. Business continuity plans are in place for each of our business locations worldwide, the majority of which were formally tested during the year.

Following an external cyber security review in January 2016, we embarked upon a comprehensive programme of technical and cultural initiatives in order to enhance further the protection against the cyber security risk inherent in our business.

What we will do in 2017

The Group's Strategic Risk Register will be updated to reflect the latest Group Strategic Plan initiatives. We will continue to roll out our programme of risk workshops, training and risk reviews to embed further risk management enhancement globally.

In support of the risk-based internal audit plan, the Group Internal Audit and Risk department will be expanded to incorporate additional knowledge, skills and qualifications. Further initiatives to provide assurance around cyber security risk will also be implemented, including the expansion of ISO 27001 compliance beyond our head office to other locations and territories.

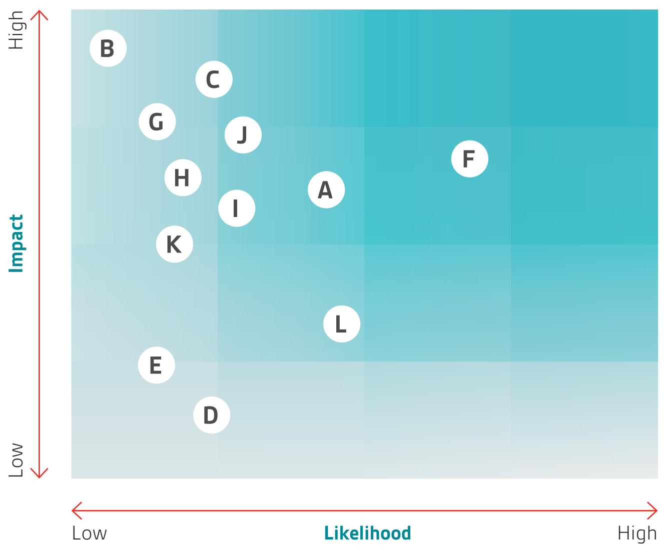
Insurance

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 2016

Following the 2015 revision of the Principal Risk Register to reflect the more holistic approach taken by the business to the risk management process, there have been no further changes to the major risk items identified in this register. The register contains both internal and external risks insofar as they are, in the opinion of the Board, the most important facing the business today.

There is additional uncertainty following the results of the UK 2016 EU referendum and, in the opinion of the Board, this is reflected in the 'Governmental intervention' and 'Global economic environment' principal risks. At a strategic level, some of the specific implications of Brexit to BSI have been recorded and are being managed through the Strategic Risk Registers of the business. Details of the impact of Brexit on BSI can be found in the Chief Executive's report on page 18.



Key ↔ No change ↗ Increased ↘ Decreased

Type of risk	Risk description	Status	Mitigating activities
Intervention			
A. Governmental intervention	We represent the UK Government as the UK National Standards Body (NSB). Much of the work we undertake is influenced by governments around the world. Changes to government policy could affect our trading or NSB status.	↗	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.
B. 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.	↔	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. We actively review our performance through Board and Executive Committees to ensure compliance.
Compliance			
C. Accreditation compliance	A large percentage of the work we perform is regulated by national and international accreditation bodies and government agencies. Loss of any of our accreditations could have a serious impact on our business.	↔	We engage with our accreditation bodies and government agencies to ensure that any issues are dealt with before they risk the loss of accreditation or Notified Body status. A regulatory compliance framework is in place along with a compliance audit programme.
D. Financial and fiscal compliance	There is an ongoing risk in any organization of our size and complexity for irregularities to occur due to human error or fraud which could impact our financial results.	↔	We have strong central, regional and functional reporting lines and Group policies and procedures in place throughout our organization. We have internal audit teams which regularly visit all locations and review specific risks. There is also an annual external audit of our financial results undertaken by PricewaterhouseCoopers.
E. Legal compliance	Any breach of legislation or issues concerning the way we carry out our business could result in legal action against us.	↔	Key employees receive relevant training on legal compliance, and compliance policies and procedures are in place across our organization. Internal audit teams regularly visit all locations.
Economic environment			
F. Global economic environment	The continually changing global economic environment means that the risk in the execution of our strategic plan is complex to manage.	↗	Our strategic plan takes into consideration the economic uncertainty and our financial targets are mindful of the external environment. Performance against budget is closely monitored. Our diverse business activities mean that there is a low concentration of risk.
G. Competitor action	Technological or business model shift or other competitor action could threaten our competitive position in our chosen markets.	↔	We seek new opportunities in all areas of our business. We monitor and analyse activity in our competitive landscape at local, regional and global level, with responses put into action as appropriate.
H. UK pension scheme	Increases in the ongoing deficit associated with our UK defined benefit pension scheme could adversely affect the strength of our balance sheet.	↔	The scheme is closed to new entrants and future accruals and we hold regular meetings with the Trustee to review the investment policy, our funding requirements and any opportunity to insure against this risk.
Reputation			
I. Brand	Our brand identity is extremely important to us and failure to protect this could result in deterioration of our reputation and potential loss of business.	↔	We reinforce our values, policies and processes with our employees, business partners and other stakeholders. We take robust action, where necessary, to protect our trademarks, brand and reputation.
J. Information security	Failure to protect against inadvertent loss of data or cyber-attack could adversely affect our trading, brand identity and reputation, and result in breaches of data protection legislation.	↔	We are certified to ISO 27001 where allowed and conform to its requirements globally. We monitor developments in this area, train all employees and perform compliance audits as appropriate.
Trading			
K. Acquisitions	Achievement of our strategic objectives depends on the identification and integration of appropriate acquisitions and failure to do so effectively could jeopardize this.	↗	Global processes are followed for the identification of targets. Comprehensive due diligence is undertaken and integration plans are agreed before acquisitions are implemented. Regular reviews of post-acquisition performance are held.
L. Resourcing	An inability to develop the right skills and deploy these in the right place at the right time could mean that business performance may suffer or opportunities are not exploited.	↘	Recruitment policies and processes are reviewed regularly. Succession planning is in place at all levels of the organization for the strategic plan horizon and regular gap analysis takes place to deal with any issues.

Supporting stakeholders, growing engagement, delivering value

In terms of standards policy, 2016 was dominated by the outcome of the EU referendum in June.

In terms of standards policy, 2016 was dominated by the outcome of the EU referendum in June. As the National Standards Body (NSB), BSI remained neutral in the prior debate. Since then, we have been deeply engaged in preparations with industry, UK Government, consumer groups and all other stakeholders to shape a clear strategy for UK experts to continue to influence the development of the European and international standards on which UK industry and consumers rely. In many respects, the Brexit decision has triggered a welcome discussion on the wider opportunities for the UK from our leadership in the development of international business and industry standards.

Standards delivery

Within the NSB we continued to refresh and renew the committees we manage and the rules we use for standards development. In December 2016, after a wide stakeholder consultation, we issued our updated process document, BS0 (A Standard for Standards – Principles for Standardization), which sets out how all our standards are written. BSI published 2,676 standards in 2016, 57% of which were revisions or amendments to previous editions. We also withdrew 1,336 standards as part of our ongoing commitment to avoid conflicting standards in the UK domestic market. More than 95% of the standards we published were the British implementation of European or international standards, demonstrating the ongoing priority within industry for standards with a multinational reach.

Maintaining the relevance of our committees to industry and consumer needs is a vital activity. In 2016 we disbanded 81 committees and created 68 new ones. These included new committees on adult social care, whistle-blowing, smart and sustainable cities and communities, cyber risk and resilience, electronic supply chain and trustworthy software. BSI now manages more than 1,900 technical committees, subcommittees and working groups. More than 900 new members joined our standards committees in 2016, taking the total number of registered committee members to around 11,500.

Dr Scott Steedman CBE
Director of Standards

'More than 95% of the standards we published were the British implementation of European or international standards'

Highlights from the standards programme

Our standards programme covers a wide range of areas, all of which have had their individual achievements. Here I have highlighted a number of successes in environmental, services, the built environment and the digital economy.

March 2016 saw the publication of ISO 14004 (Guidance on the Implementation of ISO 14001, Environmental Management), which covers all the elements of an environmental management system to help organizations with their decision making, as well as the factors that need to be taken into account during environmental policy formation. BSI holds the secretariat to the ISO sub-committee that developed both ISO 14001 and ISO 14004 and, in September, ISO recognized the work of this secretariat by awarding it the prestigious Lawrence D Eicher Award for the innovative approach it had demonstrated in engaging with its membership and promoting its work externally.

The role of standards to support performance improvement in the service sector is attracting increasing interest, both at European and national level. In 2016, as a member of CEN's Strategic Advisory Group on Services, BSI played a leading role in the development of a new European strategy for the role of standards in the service sector, proposing criteria for cross-cutting 'horizontal' standards, applicable to generic business issues across multiple sectors. The CEN technical committee for horizontal service standards, for which BSI provides the secretariat, met for the first time in July 2016 and will take forward a new work programme in procurement, service agreements and contracts, performance measurement, terminology and customer satisfaction measurement.

Working closely with the construction sector BSI has developed over recent years a suite of internationally recognized standards supporting building information modelling (BIM) that set out a basis for digital collaboration when designing, building and maintaining built environment assets (the PAS 1192 series).

This year we developed a dedicated online portal with all the necessary standards and guidance for industry to implement the standards (BIM Level 2). The portal, which was developed with support from the UK Government, will become the official BIM Level 2 hub, providing 16 newly commissioned guidance chapters aimed at the UK and international markets to support the seven BIM standards. All international chapters will be translated into a number of languages, including Arabic and Chinese. Over 100,000 copies of our BIM Level 2 standards have been downloaded since 2013.

Our activity in the digital economy reached a new level this year with the launch of PAS 212 (Internet of Things). This standard, known as the 'Hypercat Specification', provides a basis for the automatic discovery of objects connected through the internet and will underpin the next stage of the digital revolution in smart applications, cities, infrastructure and manufacturing. Over 2,000 people attended the launch of the Hypercat Alliance and PAS 212 at the Festival Hall in London in June.

Alongside the need for standards to support the digital economy, we see a growing demand for standards that set out better business practices. One key area is procurement and in December 2016 the first international standard for sustainable procurement, ISO 20400, was approved for publication. The UK was very influential in the development of ISO 20400, which draws heavily from BS 8903 (Sustainable Procurement). Similarly, the measurement of social value for enterprise is another area that would benefit from some harmonization of the many different approaches available to businesses. In 2016, using funding from the UK Government, BSI researched the existing social value landscape to develop an approach to shaping relevant business standards.

And finally, one of our standards in particular captured the public imagination: BS 8611 (Robots and Robotic Devices), a guide to the ethical design and application of robots and robotic systems. This new standard attracted strong interest from China and the US, as well as UK media channels.

Members

Our programme to improve the experience of those who contribute to standards development in UK continued to grow through engagement and forums. In 2016 we issued a new Committee Member Policy and a Standards Makers Feedback Policy. These policies help BSI's committee members to understand their roles better and make it easier for all standards makers to provide feedback on their experiences of working with us.

In 2016 we launched a new initiative to strengthen the links with associations who nominate experts to BSI committees. We also developed our approach to young professionals to encourage the future generations to see the strategic value of involvement in standards development. This is part of the increasing diversity of our standards community, which we aim to develop further in 2017.

We held three standards forums to discuss standards issues with stakeholders. In 2016 we held our first forum in Northern Ireland, in partnership with the National Standards Authority of Ireland (NSAI), and we held our third annual Standards Awards event, where we recognized excellence in standards development. We held a dedicated event for our consumer and public interest stakeholders in Edinburgh in June.

Our standards development online environment has been completely overhauled. This includes consolidation of the three services of standards information, proposals and drafts into one environment, a best practice approach to usability and accessibility and improved user journeys to enable seamless integration with BSI's wider digital services. The new website went live in December. Since October our regular communication to BSI's members, 'Update Standards', has switched to a digital-only format. Our meeting centre in Chiswick was refurbished during the year and has been improved significantly by the addition of a new member room and enhanced facilities for web conferencing.

UK engagement

We have engaged extensively with all our stakeholders since the EU referendum in June, including the new Department for International Trade (DIT) and Department for Exiting the European Union (DExEU). Our stakeholders in industry and the consumer community are keen to ensure that the UK retains full membership of the European Standards System (ESS) post-Brexit through continued full membership of CEN and CENELEC, so that we may continue to influence European and international standards used both in the UK and globally. We have conveyed this message to our European partners and to the UK Government. We remain confident that we will achieve this outcome, as CEN and CENELEC are private organizations and not agencies of the EU.

Innovation is a second area where we have pushed hard to improve the awareness of the value of standards. We have been working more and more closely with the Catapult centres, a network of world-leading facilities designed to transform the UK's capability for innovation in specific areas and help drive future economic growth. We have connected with the Energy Systems Catapult reflecting the importance of the UK moving towards a smarter, more flexible energy system to meet energy and climate change objectives. We delivered a study for a standards strategy through the High Value Manufacturing Catapult to support the transition to digital manufacturing and a further scoping study was delivered through the Transport Systems Catapult on connected and autonomous vehicles. Work with the Future Cities Catapult in the area of smart and resilient cities continues.

In addition, we have further developed our approach to the electro-technical sectors to grow the strategic engagement with industry leaders. Strong links have been built with the industry council body, ESCO, which I have been invited to join in my capacity as Director of Standards.

International engagement

Throughout 2016 we maintained a high level of activity in the European and international standards bodies. We expanded our secretariat holding this year and we are providing additional support to UK convenors of key working groups. We continued to play a lead role in initiatives of strategic importance at the international level, including ISO's work on its future standards environment. On 1 January 2017, I had the privilege of assuming the role of ISO Vice-President (Policy), the first UK Vice-President of ISO since 1988. I will step down from my role as Vice-President (Policy) for CEN in 2017.

Our International Projects consultancy continued to support technical assistance projects around the world. After significant engagement with international donors and with the UK Government, we secured projects in Ukraine supporting SMEs, in Belarus on the accreditation of testing laboratories for medical products, in Israel on modernizing environmental, regulatory and management tools for the Israeli industry, in Turkey in the Food sector and in the Caribbean on the development and implementation of technical regulations and methods of referencing standards. We are keen to expand our donor partners to develop our reach and influence in related geographies and domains.

In April, we led a delegation from the UK to Chengdu in China for the first formal meeting of the UK-China Standardization Cooperation Commission (SCC). The SCC reports to the Joint Economic and Trade Committee (JETCO) between the UK and China and is an important channel for dialogue between technical experts and on strategy and policy matters to do with trade, growth and innovation between our countries.

'Throughout 2016 we maintained a high level of activity in the European and international standards bodies. We expanded our secretariat holding this year and we are providing additional support to UK convenors of key working groups. We continued to play a lead role in initiatives of strategic importance at the international level, including ISO's work on its future standards environment'

'Through the commitment of our committees and, indeed, all our members, we look forward to 2017 to continue to shape and deliver expertise in best business practices across the world'

Sixty two UK standards have now been adopted by China and we are developing work programmes around standards for smart cities and civil nuclear, supported by the Foreign and Commonwealth Office China Prosperity Fund. Three of our smart city framework standards, PAS 180, 181 and 182, were adopted by China in 2016 as Chinese national standards.

In Europe we have supported the development of the European Commission Joint Initiative on Standardization (JIS), and we are leading some of the resulting actions. In my role as Vice-President (Policy) for CEN, I assisted in the conclusion of the STEER project, a member-led initiative to develop new recommendations on how to improve the efficiency of CEN and its sister organization, CENELEC, which will now be implemented.

Our standards community

Finally, as every year, it is important that I pay tribute to the many thousands of experts who give their time and knowledge to support BSI's work as the NSB through the standards development process internationally, in Europe and in the UK.

Through the commitment of our committees and, indeed, all our members, we look forward in 2017 to continue to shape and deliver expertise in best business practices around the world.

Scott Steedman

Dr Scott Steedman CBE
Director of Standards
23 March 2017

Secure

ISO 22301 enabled Nxtra Data to have clear cut controls in place to manage risk and deliver a reliable and secure service to clients

'As a global communications, hosting, cloud and IT services company, our main focus is in processes and controls based on Information Security (both physical and cyber), Business Continuity and IT service management.'

Neil Pollock
Chief Executive Officer
Nxtra Data

Nxtra Data provides an integrated portfolio of colocation, cloud and managed services across the world, based in India. It has implemented a comprehensive set of relevant standards and management systems with BSI including ISO 27001, ISO 22301, and ISO 20000-1.

Keeping data secure

Due to the business critical function of a data centre, Nxtra Data's core objectives are to provide reliable and secure IT infrastructure, with zero downtime. Working with BSI provided a way of ensuring it has robust processes in place.

The impact of the solution

Recently, when devastating floods hit the entire Coromandel Coast region of South India, Nxtra Data's ISO 22301 certification meant it was well placed to put its Business Continuity plans into action. When disaster hit, its high state of preparedness enabled it to reduce the impact of the disaster on its clients. This rigorous and robust approach meant service levels were maintained with zero downtime during the crisis.

Revenue and profit were at record levels

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

Overview

Despite reasonably stable trading conditions, particularly in its early months, as 2016 developed it brought with it some unprecedented challenges and experiences for the world economy. The result of the EU referendum in the UK created uncertainty that will last for some time into the future. The US elected its first Republican president for eight years. More locally many countries experienced economic, political social and security issues that led to sub-optimal trading conditions. In addition, oil and gas prices, although they increased during the year, remained at levels below their historical norms. Against this backdrop many of our competitors have reported results below market expectations.

BSI is fortunate in having a very broad spread of business across geographies, business streams, industry sectors and business domains. As such our overall results were not materially adversely affected by these macro-economic trends and, in 2016, were able to report record levels of underlying revenue and underlying operating profit. The deficit of our UK defined benefit pension scheme increased during 2016, predominantly due to the lower level of corporate bond yields, and this led to a reduction in our net asset value despite the earnings generated during the year. However, we ended the year with significant funds in the bank and no external debt, and 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.

Craig Smith FCCA
Group Finance Director

'2016 saw some unprecedented challenges and experiences for the world economy'

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 35.

Revenue

BSI Group revenue increased by 21% in 2016 to £401.8m (2015: £331.1m). Organic revenue growth at constant exchange rates was 9%, in line with the organic growth rates reported in both 2014 and 2015. This was supplemented by another 3% inorganic growth from our five 2016 acquisitions (2015: 6%). Sterling weakened during 2016 against all of our major trading currencies and so also had a positive effect on our reported revenue, increasing it by another 9% (2015: 0%). The reported revenue growth of 21%, at actual exchange rates, meant that our underlying revenue continued its trend of increasing every year since 1999 and was at its highest level in the 115-year history of the Company.

Each of our regions and business streams reported revenue growth in 2015. EMEA grew by 15%, the Americas by 29% and Asia Pacific by 25%. Our Knowledge stream increased its revenues by 6%, Assurance by 19% and Compliance by 76%. All of our 2016 acquisitions were in the Compliance stream. All of our regions' and streams' reported revenue benefited, to varying degrees, from the weakness in Sterling in 2016. 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 20 to 25.

Underlying operating profit (UOP)

Investments in recent years have laid a stable platform for profit growth and this was delivered in 2016. Underlying operating profit increased by 42% from £35.4m in 2015 to £50.1m in 2016. This was the highest level of UOP reported in the Group's history.

As with revenue there are three components to this increase. Organic UOP at constant exchange rates grew by 31% (2015: 18%).

The acquisitions completed during 2016 added 1% of inorganic growth (2015: 4%). In 2016 we benefited from the weakness in Sterling and exchange rate movements contributed another 10% (2015: 0%).

At an overall Group level our gross profit margin increased from 46.9% in 2015 to 47.8% in 2016. 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 and, as in 2015, this was again the case in 2016. It is pleasing to report further increases in gross margins for our Systems Certification and Training businesses, as they deliver their strategic initiatives which refer to margin growth. However, our recently acquired consultancy businesses have a naturally lower level of gross profit margin and the increased proportion of consultancy in 2016 has mitigated the overall increases from elsewhere in our business.

Selling, distribution and administration costs increased more slowly than revenue, by 18% during 2016. Internal revenue and profit budgets were beaten in 2016 and incentive payments to management increased from their 2015 levels. In addition, the provision for the Long Term Incentive Plan was increased by £2.4m (2015: £2.0m) due to the high level of 2016 revenue and profit and a resultant increase in our target for 2017 and beyond. Depreciation and amortization increased to £10.7m (2015: £10.5m) due to the recent acquisitions and increased levels of capital expenditure.

These levels of gross profit and selling, distribution and administration costs resulted in an underlying operating profit of £50.1m (2015: £35.4m) as explained above. This implies an underlying operating profit margin of 12.5%, an improvement of 180 basis points on 2015 (2015: 10.7%).

Exceptional items and operating profit

Our acquisitions of Espion, Info-Assure, CES, Atrium and QMG all included some element of consideration payable three years after the acquisition date should certain employment criteria be met at this time. This amount will be accrued over the three years following acquisition and so an exceptional item of £0.9m appeared, for this reason, in the 2016 accounts. In addition, there was a similar accrual of £0.7m (2015: £0.6m) relating to our 2015 acquisitions of EORM and HCE. There were also deal costs of £0.8m relating to the 2016 acquisitions (2015: £0.1m relating to the 2015 acquisitions).

In 2016 we instigated and partially completed a refurbishment of our head office in Chiswick, UK. Much of the cost of this refurbishment will be capitalized and depreciated over the time remaining on our lease in Chiswick. However, there were also exceptional costs relating to this project of £0.4m charged during 2016.

The total exceptional costs in 2016 were £2.8m (2015: £1.3m). This meant that our operating profit for the year was £47.3m, an increase of 39% over the 2015 figure of £34.1m.

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 2016 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 (2015: £0.1m). 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 £2.3m in 2016 (2015: £2.6m). Profit before tax increased by 43% from £31.6m in 2015 to £45.2m in 2016.

Taxation

The Group effective tax rate (ETR) on profit before tax in 2016 was 30.5% (2015: 25.1%). Eliminating the prior year adjustments arising on overprovided UK and foreign tax the current year ETR was 29.2% compared to 25.7% last year.

We consider the ETR on UOP to be a better indicator of the tax management of the operating businesses. In 2016 the ETR on UOP increased slightly to 28.6% (2015: 28.2%). The mix of the differing tax rates between the countries in which we make our profit can create such fluctuations in the overall rate. For example, in 2016, the corporation tax rate for our US businesses was 42% (2015: 41%) whereas in the UK the weighted average corporation tax rate was 20% (2015: 20.25%). Also the proportion of our profit before tax that we make in countries with different tax regimes has a mix effect. BSI continues to grow its business globally, decreasing the proportion of the profit it makes in the UK, which has one of the lowest tax rates in any of the countries in which we operate.

Balance sheet and cash flow

The net asset value of the Group increased by £4.5m or 6% in 2016, from £78.4m to £82.9m. The main contributors to this were the profit for the year of £31.4m (2015: £23.7m) and foreign exchange gains of £9.8m (2015: losses of £0.7m), mitigated by the increase in the deficit of the UK defined benefit pension scheme of £33.2m (2015: £11.1m reduction).

BSI remained highly cash generative during 2016, with cash generated from operations, before contributions to the UK defined benefit pension scheme, of £61.1m (2015: £45.7m). Our strong cash position at the beginning of 2016, and the generation of cash during the year, ensured that we were able to fund all our acquisitions without recourse to external financing. £29.3m was spent on these acquisitions (2015: £19.7m) but, despite this outflow and our significant capital expenditure during the year, we ended 2016 with zero debt and £48.1m in the bank. This means that, in 2017, we are again well placed to fund any prospective acquisitions or other investments internally.

Balance sheet and cash flow continued

Our purchases of property, plant and equipment and intangible assets were £12.1m in 2016 (2015: £6.8m). We continued to invest in our information and communications technology infrastructure as well as in more client-facing programmes such as our Entropy Software, our Supply Chain Solutions offering and our online solutions and product delivery platforms.

Included in this figure was an investment of £0.4m in the development of new training courses (2015: £0.3m).

Debtor days increased slightly during 2016 to 60 days (2015: 58 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 2016, with receivables written off amounting to only £0.7m (2015: £0.8m) 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 increased by £33.2m, or 47%, from £70.9m to £104.1m during 2016.

A contribution was made to the scheme during the year, in accordance with the schedule of contributions agreed with the Pension Trustee, of £12.5m (2015: £12.5m). There was a net interest cost of £2.3m (2015: £2.6m) and operating expenses of £0.5m (2015: £0.5m) recognized in the consolidated income statement, together with a re-measurement loss of £42.9m (2015: gain of £1.7m) 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 2.6% compared to 3.8% in 2015. 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.

'Against this backdrop many of our competitors have reported results below market expectations'

'BSI is fortunate in having a very broad spread of business across geographies, business streams, industry sectors and business domains and, as such, our overall results were not materially adversely affected by macro-economic trends'

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 2013 and a schedule of contributions was agreed with the Trustee that is expected to eliminate the deficit by 31 March 2021. This schedule required contributions of £37.5m in the period 2014 to 2016 inclusive.

A payment of £0.5m was made into the scheme in February 2016, and a further £12.0m was paid in March 2016, satisfying the Group's obligations under the schedule of contributions for the year. A further triennial valuation took place on 31 March 2016 and the Group is currently in discussions with the Trustee to agree an updated schedule of contributions for the next three years and beyond.

In addition to the UK defined benefit pension scheme the Group operates small defined benefit pension schemes in Taiwan and Germany 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 2016 was £1.3m (2015: £1.0m).

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.

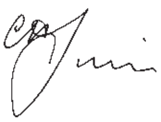
The principal aim of these policies is to manage and monitor the Group's funding requirements, optimize net interest cost after tax and manage financial risk arising from the international nature of the business of the Group, particularly in terms of interest rates and foreign exchange. Policy prohibits 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 of £48.1m at the end of 2016. This was down 6% from the equivalent figure at the end of the previous year (2015: £51.0m). However, during the year there was cash expenditure on acquisitions of £29.3m (2015: £19.7m), capital expenditure of £12.1m (2015: £6.8m) and a contribution to the UK defined benefit pension scheme of £12.5m (2015: £12.5m). Although the Group is debt free, it recognizes the occasional need for external funding and held bank overdrafts of £2.7m (2015: £2.4m), on an unsecured basis, at the end of 2016, 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 £1.7m (2015: £1.3m).

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
23 March 2017

Exchange rates

	Year end 2016	Year end 2015	**Average 2016**	Average 2015
Australian Dollar	**1.70**	2.04	**1.80**	2.05
Euro	**1.17**	1.36	**1.21**	1.39
Chinese Renminbi	**8.52**	9.64	**8.90**	9.58
Japanese Yen	**143**	179	**144**	185
US Dollar	**1.23**	1.49	**1.33**	1.53

Financial KPIs

Revenue (£m)

£401.8m

+21%

16	401.8
15	331.1
14	287.1
13	271.8
12	254.6

Underlying operating profit (£m)

£50.1m

+42%

16	50.1
15	35.4
14	29.1
13	28.3
12	31.2

Operating profit (£m)

£47.3m

+39%

16	47.3
15	34.1
14	30.7
13	26.8
12	32.1

Profit for the year (£m)

£31.4m

+33%

16	31.4
15	23.7
14	21.0
13	21.3
12	22.1

Gross profit margin (%)

47.8%

+0.9ppt

16	47.8
15	46.9
14	47.7
13	48.4
12	49.3

Underlying operating profit margin (%)

12.5%

+1.8ppt

16	12.5
15	10.7
14	10.1
13	10.4
12	12.3

Net asset value (£m)

£82.9m

+6%

16	82.9
15	78.4
14	56.5
13	63.4
12	49.9

UK defined benefit pension fund deficit (£m)

£104.1m

+47%

16	104.1
15	70.9
14	82.0
13	58.7
12	59.9

Cash (£m)

£48.1m

-6%

16	48.1
15	51.0
14	52.8
13	43.4
12	41.0

Alicja Lesniak, Chairman of the Social Responsibility Committee

Enabling a resilient world

At BSI we are committed to ensuring that social responsibility helps to drive our own decisions, activities and culture as we work with our clients to shape resilience in their businesses.

Our commitment

Social responsibility (SR) is an integral part of Organizational Resilience. At BSI we are committed to ensuring that SR helps to drive our own decisions, activities and culture as we work with our clients to shape resilience in their businesses.

Our approach

In September 2015 I took over as Chairman of the Board's SR Committee. I am grateful for the support we receive in the business from our SR Programme Manager, executive SR sponsors in our priority areas and a network of regional and country SR champions. Together we ensure that our approach to SR aligns with the business strategy.

2016 was an exciting year for SR as we revitalized our approach. While still basing this on ISO 26000 (Guidance on Social Responsibility) we issued a new SR Commitment in January 2016 which describes where we believe we can make a difference within four priority areas: our business, our people, our communities and our environment. This can be found on the BSI website:

www.bsigroup.com/social-responsibility.

Later in the year we undertook a comprehensive SR alignment project to align our SR programme still further with our business strategy and purpose. Over 300 of our colleagues and over 40 external stakeholders worldwide were canvassed for their views. As a result, we added another initiative to our strategic plan entitled 'Develop our approach to social responsibility under the banner 'enabling a resilient world' and began work on two new, Group-wide, SR focus areas relating to 'education' and 'diversity and inclusion'. A third, relating to 'socially responsible procurement', will begin in 2017. Our commitment in these areas will result in further resource being dedicated to social responsibility.

Alicja Lesniak
Chairman of the Social Responsibility Committee

'We take pride in taking a socially responsible approach to our business and supporting others to do the same'

'2016 was an exciting year for social responsibility as we revitalized our approach. We issued a new Social Responsibility Commitment which describes where we believe we can make a difference within four priority areas: our business, our people, our communities and our environment'

Our business

We recognize that, as the UK National Standards Body and a world leader in assurance and compliance services, we are in the very fortunate position of being able to help shape the way that organizations handle SR and contribute to resilient and sustainable long-term development. Our aim is also 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 as part of our ongoing business. In addition to the guidance of ISO 26000, we currently 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.

During 2016 we expanded our portfolio of Environmental, Health and Safety (EHS) and Information Security (IS) services by means of several acquisitions and significant organic growth. This development has materially enhanced our Group expertise in domains that are integral to the socially responsible resilience of our clients. We leverage this expertise internally as well and apply this to our business to enhance our own resilience.

We continue to enrich the knowledge of our employees and issued online, interactive training courses to every one of our employees and external resources in three areas: anti-bribery and corruption, competition law and cyber security. We also took action to integrate the provisions of the Modern Slavery Act (2015) into our own business and supply chains. Our modern slavery statement can be found on the BSI website:

www.bsigroup.com/social-responsibility.

Social Responsibility theme

‘Enabling a resilient world’

We enable the resilience of people, organizations, communities and BSI.

New focus areas

Our new focus areas provide a tangible way in which we bring the theme to life.

Education
Put structure and focus around existing education programmes, develop new ideas and activities, and apply them internationally for young people.

Diversity and Inclusion
Enhance the diversity and inclusion of our people and the wider BSI family.

Our Social Responsibility commitment

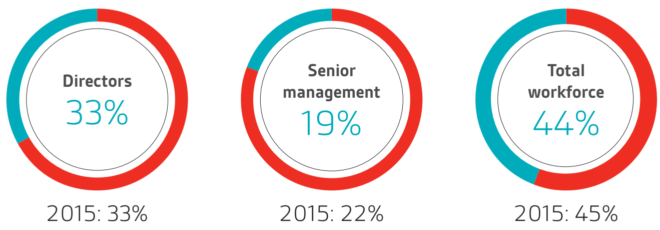
We will continue to:

- Support local initiatives such as charitable donations and volunteering
- Embed SR into our procurement policies and processes
- Support colleague wellbeing and learning and development
- Adopt appropriate and relevant standards globally to support BSI’s resilience

Our people

We recognize that our world is forever changing, and we continually seek to engage our colleagues’ views to ensure that we become a better employer where people can be proud to work and can develop their professional careers. Our last biennial global employee engagement survey in 2015 demonstrated that we had made progress in all areas covered by the survey, compared to the previous survey in 2013. In 2016 we continued to work on the results of this survey in anticipation of this year’s biennial update.

Diversity (%)



Our recruitment programme helps us to create a workforce that reflects the local diversity of the countries in which we operate. Appointments are made on merit, seeking increasingly to take the benefits of diversity into consideration. Our senior management group comprises 26 different nationalities. We have a larger population of female employees at the lower grade levels in the organization with a diminishing presence as the grading level increases. The percentage of female employees at both senior manager and total workforce levels did fall during 2016. This is mostly due to the employees of the businesses we acquired during 2016, who were predominantly male. Excluding acquisitions 46% of our total workforce was female, a small improvement on last year. This will be an area of focus in 2017.

BSI Chief Executive Howard Kerr and part of ‘Team BSI’ who participated in the 2016 London to Brighton Bike Ride

Our people continued

Our ambition is to create an extraordinary place to work where colleagues can reach their full potential. We invest in creating modern workplaces and are nearing the completion of a programme of work to upgrade our key offices across the globe. In 2016 we have undertaken an extensive renovation of our head office in the UK to create a working environment that promotes knowledge sharing, better collaboration and personal accountability.

We have a global reward and recognition system and continue to provide opportunities for our colleagues to improve their physical, social and emotional wellbeing. A number of countries, including the UK, the US and Australia have developed structured wellbeing initiatives. We have implemented recommendations from the 2015 'Britain's Healthiest Company' survey and focused on muscular skeletal issues and providing resilience and vitality sessions throughout the UK.

All of our offices have a health and safety management system in place. The offices in our largest operating countries, the UK, the US, Australia, China and Japan, are certified to, or comply with OHSAS 18001 (Occupational Health and Safety Management) or the local equivalent. Employees are encouraged to report near misses as well as accidents. We continue to monitor the number and causes of these and put measures in place to reduce the risk of occurrence.

Our communities

We understand the importance of giving back to our local communities and we encourage our colleagues to play a positive role in this. Our aim is to contribute positively to the communities in which we work.

Our colleagues boast a wealth of knowledge and skills that can support our local communities. They often volunteer their time to charitable organizations and organize free seminars and workshops for the public by subject matter experts.

'Later in the year we undertook a comprehensive alignment project to align our social responsibility programme still further with our business strategy and purpose'

In early 2016, we launched a formal volunteering policy and a number of colleagues have taken up the opportunity to spend a day out of the office sharing their skills and knowledge with charitable organizations and education providers.

Our BSI EHS consultancy team in the US partnered with the Junior Achievement initiative to teach 150 students in under-served Northern California schools about work-readiness, entrepreneurship and financial literacy. Our Australian team continues to provide internships and, in the last year, some of these interns have been offered permanent roles within the business. Our UK business has developed partnerships with local education providers and our newly acquired BSI information security consultancy business has a dedicated outreach programme.

We maintain an active policy of charitable giving, either directly or in support of colleague-led initiatives. For the second year running we participated globally in a 'Walk for Water' challenge in aid of our global charity partner, WaterAid. A number of our offices collect and donate reusable items to charities such as unused business attire to Dress for Success, which is dedicated to empower women to achieve economic independence. In the UK in June over 40 employees joined 'Team BSI' as we participated in the London to Brighton Bike Ride to raise money for the British Heart Foundation. These initiatives are just examples of the many in which our employees participate worldwide to raise funds for important causes.

Our environment

We recognize the importance of good environmental stewardship. We aim to minimize the negative impacts of our decisions and activities on the environment and improve our environmental performance. Adopting the principles of ISO 14001 (Environmental Management) helps us in this regard. We have achieved third-party certification in our Corporate Centre and Information Solutions businesses. We are conscious that, as we upgrade our offices over time, it has a significant environmental impact and we adopt the highest relevant standards to help minimize this.

In 2016, we continued to support our global charity partner, WaterAid

© WaterAid/Behailu Shiferaw

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 the Department for Energy and Climate Change (DECC) and Defra.

Every year we strive to produce the most accurate data available to us through the continual improvement of our data gathering process. In 2016 in particular, we have enhanced our access to data for car usage outside the UK and more of our office locations. As a result, we have restated our 2015 numbers for comparability, using retrospective estimates where necessary. Our 2016 acquisitions are not yet included in our data.

Greenhouse gas emissions (tCO_2e)	2016	2015 restated
Scope 1 emissions	**3,800**	3,600
Scope 2 emissions	**2,600**	2,500
Net emissions	**6,400**	6,100
Intensity ratio per employee	**1.89**	1.88
Intensity ratio per square metre	**0.14**	0.13

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.

The intensity ratio per employee is the total net emissions divided by the headcount employed by the Group during the year.

The intensity ratio per square metre is the total net emissions divided by the area of office space used by the Group during the year.

We operate local recycling awareness campaigns to help reduce our impact on the environment. Many countries also operate specific initiatives such as collecting unwanted mobile phones and accessories for recycling in Australia, donating bottle tops in exchange for polio vaccines for children in Japan, creating cash from trash in India and donating old IT equipment to charitable organizations when we upgrade our equipment in the UK and the US. In Australia this year, old laptops were made available for purchase by employees, raising important funds for a local charity.

Energy is also a key focus for us. We have developed a global Health, Safety, Environment and Quality (HSEQ) and Sustainability Policy which includes our position on energy management to optimize energy performance, reduce the impact associated with energy use and actively and responsibly manage energy consumption. Measures to reduce energy use include the promotion of web conferencing, car sharing and the careful allocation of jobs to our auditors to minimize their travel where possible. Some offices have taken specific steps to reduce energy use. For example, in India the installation of LED lighting has reduced energy bills by 30%.

We track our greenhouse gas emissions worldwide and continue to refine and improve reporting in this area. We have commenced mid-year reporting to help us more actively manage our GHG emissions.

At BSI social responsibility is a business imperative. We take pride in taking a socially responsible approach to our business and supporting others to do the same – enabling a resilient world.

Alicja Lesniak
Chairman of the Social Responsibility Committee
23 March 2017

Our Board

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

Committee membership

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

Sir David Brown A N SR
Chairman
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 N SR
Chief Executive
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.

Dr Scott Steedman CBE SP
Director of Standards
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).

Lucinda Riches A N R
Senior Non-Executive Director
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 and a Trustee of Sue Ryder.

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.

Alicja Lesniak A N SR
Non-Executive Director
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. She is also Senior Non-Executive Director at Next Fifteen Communications Group PLC.

Dr Stephen Page N R SP SR
Non-Executive Director
Stephen Page joined the Board in September 2015 as Non-Executive Director. Stephen has a wealth of experience in IT transformation and corporate risks such as cyber security and counter-terrorism. At Accenture he had a variety of European and global leadership roles including Managing Director, Strategic IT Effectiveness. For the past ten years he has held a portfolio of Board and senior advisory positions. He is currently a Non-Executive Director of the National Crime Agency and of the British Library, and advises a number of companies facing the risks and opportunities of the digital age.

Alison Wood N R
Non-Executive Director
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.

Douglas Hurt A N R
Non-Executive Director
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 Non-Executive Director and Chairman of the Audit Committee of Tate & Lyle PLC and Vesuvius PLC.

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

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

Pietro Foschi
Group Strategic Delivery Director

David Brown
Director of Corporate Development

Shirley Bailey-Wood MBE
Director, Information Solutions

OUR REGIONS

...delivered through local relationships and resources

Read more on p04

OUR STREAMS

...specialized combination of products and services

Read more on p06

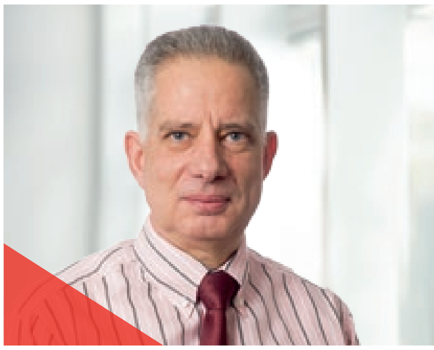
Dr Scott Steedman CBE
Director of Standards

Tony Wales
Director of Legal Affairs

Devyani Vaishampayan
Group Human Resources Director

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

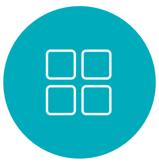
Read more on **p08**

Healthcare

Food

Built Environment

Aerospace and Automotive



All other sectors

OUR DOMAINS

...Organizational Resilience
across the business

Read more on **p10**

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
23 March 2017

Governance framework

The Board of The British Standards Institution is committed to the highest standards of corporate governance which it considers fundamental to the success of the business. The British Standards Institution is governed by its Royal Charter and Bye-laws. As a Royal Charter Company, BSI is not subject to the oversight by investors as is found in joint-stock companies but, nevertheless, has complied throughout the accounting period with the FRC UK Corporate Governance Code 2014 (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, determination of corporate policies, consideration of significant matters relating to the raising of finance, acquisitions and disposals, remuneration of senior management, appointments to the Board and Board Committees and corporate governance matters.

In 2016 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 2016, or to date. The Directors of the Company and their roles are given in their biographical details on pages 40 and 41.

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 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

Executive Committees
(reporting to the Chief Executive)

Group Executive Committee

Banking and General Purpose Committee

Certification Body Management Committee

Code of Conduct Oversight Committee

Board Committees
(reporting to the Board)

Audit Committee

Remuneration Committee

Nominations Committee

Social Responsibility Committee

Standards Policy and Strategy Committee

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 2016. 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 2016 are shown in the diagram 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 regular intervals and in 2014 it was facilitated by Independent Board Review, a division of Independent Audit Limited. Following an information gathering process, including use of its online assessment service Thinking Board, it independently analysed the responses and presented the findings and its suggestions in a paper which was considered, discussed and acted upon by the Board and its Committees. The Board agreed that, in 2016, as in 2015, the Company should facilitate the process itself and, in order to provide consistency, assess change and build upon benefits of the previous years' processes; it would use the same question set and Thinking Board system, reviewing and analysing the responses internally. The exercise was valuable and led to constructive discussion. It was agreed to implement the changes and improvements suggested, which included a more extensive development and succession planning programme, the need to gather a wider strategic perspective and a consideration of the scope and use of client feedback in strategic planning. The process also confirmed that the Board Committees were working well and were effective and that agreed suggestions for their continuing improvement would be actioned.

Training in matters relevant to their role on the Board is available to all Directors. When appointed, new Directors are provided with a full and tailored induction in order to introduce them to the business and

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

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, paid for by the Company.

Board Committees

The Board delegates certain of its responsibilities to standing Committees. These Committees have written terms of reference that deal with their authorities and duties, which are 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 50 to 52.

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 54 to 63.

Board focus during 2016

January

- Formal determination of risk appetite
- Business update on EMEA region
- Report by the Finance Director on the sales to revenue cycle
- Presentation of the results of the employee engagement survey

March

- Evaluation of the effectiveness of the Chairman and the Chief Executive
- Consideration and approval of the proposed acquisition of Espion Limited, Ireland
- Approval of new cyber-security initiatives
- Consideration of the 2015 results and approval in principle of the Annual Report
- Review of the Group's competitor landscape in its key markets
- Review of the Group's talent management strategy
- Business update on customer insight
- Review of the Group's Organizational Resilience marketing strategy

May

- Review of BSI's Code of Business Ethics
- Review of compliance with the NSB Code of Conduct
- Discussion of the implications for the NSB and the Group of a 'leave' vote in the EU referendum
- Business update on the Group's human resources
- Determination of membership fees

June (two meetings)

- Review of Group strategy with the Group's Executive management
- Consideration of the Group strategic plan 2017–19
- Discussion on the Group's vision for 2020
- Business updates on the Americas region and on the newly acquired Espion Ltd business
- Review and approval in principle of the proposed acquisitions of Atrium and CES, US
- Further review of the Group's competitor landscape in its key markets
- Annual review of social responsibility policies

September

- Consideration of the governance of Group subsidiary companies
- Review and approval in principle of the proposed acquisition of Info-Assure Limited, UK
- Review and approval in principle of the proposed acquisition of Quantum Management Group, US
- Discussion on the Group's approach and contingency planning in response to the Brexit vote
- Update on the Group's enterprise IT systems project
- Approval of the Group's strategic plan 2017–19
- 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
- Review of the Assurance stream's sales to revenue cycle
- Business update on the Asia Pacific region
- Approval of the Group's budget 2017

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 page 53.

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 28 to 30.

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 36 to 39.

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 26 and 27.

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
23 March 2017

Statement of Directors' responsibilities

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the BSI Group and the Company and of the profit or loss of the BSI Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and the Royal Charter and Bye-laws of The British Standards Institution. They are also responsible for safeguarding the assets of the Company and the BSI Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

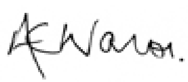
The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom, governing the preparation and dissemination of financial statements, may differ from legislation in other jurisdictions.

Disclosure of information to auditors

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- 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 Company's auditors are aware of that information.

By Order of the Board



Tony Wales
Company Secretary
23 March 2017

The Audit Committee

During the year the Committee's activities included a comprehensive review, undertaken with the external auditors, of the scope of the audit to ensure it remains relevant to the developing profile of the Group. The Committee also approved a new risk-based internal audit plan.

Lucinda Riches
Chairman of the Audit Committee

Audit Committee attendance

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

● Attended ○ Did not attend

The Audit Committee (the 'Committee') is established by the Board under terms of reference that are reviewed annually and 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 2016 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, are 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 Tate & Lyle PLC. Alicja Lesniak is a Chartered Accountant and is a Director of Next Fifteen Communications Group PLC. During her career she 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. 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;
- 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 External Quality Assessment (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 are in hand. 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. 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 2015 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 2015 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;
- undertook, with the external auditors, a comprehensive review of the scope of the external audit, agreed a more risk-based approach relevant to the developing profile of the Group and agreed the 2016 audit plan with the auditors based on the new approach;
- agreed areas of audit focus with the external auditors which, for 2016, were primarily the detection of fraud in revenue recognition, management override of controls and acquisition accounting, as well as the UK defined benefit pension scheme's valuation 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;
- reviewed and approved the new internal audit planning process based on an 'assurance map' which maps risks against assurance providers to ensure risks are appropriately monitored and addressed;
- approved a new risk-based internal audit plan for 2016, based on principal risks overlaid with country risk with regard to the assurance map;
- monitored the actions taken by internal audit in response to the findings of the External Quality Assessment;
- approved the fee payable to the external auditors and agreed that an effective, high quality audit can be conducted for the fee;
- considered and approved the external auditors' letters of engagement and letters of representation;
- reviewed the policy on the engagement of the external auditors to supply non-audit services;
- received a comprehensive treasury and tax update;
- 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;
- reviewed and monitored the progress of the Financial Shared Service Centres project;
- 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 46. 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 2016 were:

Significant risk:

- fraud in revenue recognition;
- management override of controls; and
- acquisition accounting for the new businesses.

Elevated risk:

- the valuation of the UK defined benefit pension scheme.

Areas of focus:

- impairment of assets, tax and judgemental provisions.

The Committee addressed these 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 3.6:1.

The Committee safeguards the external auditors' objectivity by reviewing their report where they detail the measures they take to maintain their independence and manage any potential conflicts of interest. 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 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, Canada and Taiwan as well as a review of management services transfer pricing in the UK, due to their relevant expertise and knowledge of the Group's business.

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 retendering 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. 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 2017 Annual General Meeting.

By Order of the Board

Lucinda Riches
Chairman of the Audit Committee
23 March 2017

The Nominations Committee

In 2016, the Committee maintained its continuing assessment of the balance of skills, knowledge, experience and diversity on the Board.

Sir David Brown
Chairman of the Nominations Committee

Nominations Committee attendance

The Committee met twice in the year ended 31 December 2016.

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

● Attended ○ Did not attend

The Nominations Committee (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 2016 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; and
- drawing up succession plans for the Directors.

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;
- recommended the selection of 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; and
- confirmed, without the Chairman being present in the meeting, the appointment of the Chairman to the Audit Committee, notwithstanding the recommendations of the Code.

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 37.

By Order of the Board

Sir David Brown
Chairman of the Nominations Committee
23 March 2017

Introduction by Alison Wood, Chairman of the Remuneration Committee

Alison Wood
Chairman of the Remuneration Committee

As Chairman of the Remuneration Committee (the 'Committee'), I am pleased to present the Directors' remuneration report for the year ended 31 December 2016. Transparency in remuneration reporting is an important aspect of good governance and this report aims to reflect best practice to the extent practicable for a company of BSI's type and size.

We have sought to enhance reporting to provide more discussion surrounding the link between remuneration and the Group's business strategy and to increase retrospective disclosure on Annual Bonus Plan and Long Term Incentive Plan (LTIP) targets.

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

Performance and reward for 2016

BSI's strong financial performance continued in 2016. The Group has also continued to execute its strategy with the successful completion of five acquisitions during the course of the year while continuing to focus on securing organic growth in its core areas of Knowledge, Assurance and Compliance. In addition, the business, across all geographies, has continued to drive operational imperatives, resulting in an uplift in profit in each of the Group's main territories. For 2016, to ensure that the remuneration framework continues to underpin delivery of BSI's strategic and operational priorities, the target weighting of both the Annual Bonus Plan and LTIP were changed. The target weighting for the LTIP was changed 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.

The payments made to the Executive Directors under BSI's variable pay arrangements reflect the success of the Group in 2016. 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. The LTIP, intended to provide incentive for growth over a longer time scale, in accordance with the Group's strategic plan, exceeded the expectations for the management operating profit (MOP) target set in 2014 and provided maximum vesting for 2016. The Executive Directors' variable pay earnings recognized their success in achieving and exceeding the strategic targets set in earlier years. In 2016 the Group achieved higher levels of revenue and profit than ever before.

Further details may be found in the 'Variable pay' section on pages 57 and 58.

Discretionary decisions made in 2016

The Committee retains discretionary power regarding certain areas of Executive Directors' remuneration. During 2016 the Committee did not exercise any of its discretionary power with regard to Executive Director remuneration.

Remuneration policy for 2017

There have been no significant revisions to the policy for 2017, but two changes have been agreed.

For 2016, the definitions of profit used to set targets for the variable pay elements of Executive Directors' remunerations were aligned more closely to underlying operating profit (UOP). During 2016 BSI made a number of acquisitions and it became clear to the Committee that these profit target definitions created a practical difficulty as it was not possible to calculate the relevant UOP target until the post-acquisition accounting treatment of acquired intangibles had been completed, which is typically several months after the acquisition. The Committee therefore decided to exclude, with effect from 2017, the amortization of acquired intangibles from both the Annual Bonus Plan and LTIP Group profit target definitions.

The Committee is satisfied that these changes in definitions will continue to provide a clear alignment between Executive reward and delivering the required short and longer-term financial performance of the the Group.

Recent changes in UK pensions legislation has imposed a further reduction in the lifetime allowance and introduced a new tapered allowance on pension contributions. In order to ensure the Executive Directors are not disadvantaged by these restrictions, the Committee has decided to formalize the top-up arrangements for them so that their remuneration remains competitive. There is minimal cost to BSI in formalizing these arrangements.

Details are set out in the 'Remuneration policy 2017' table on pages 60 and 61.

2017 focus

The Committee keeps the effectiveness of the Company's remuneration policy under review. During 2017 the Committee will address further the framework and metrics of BSI's incentive plans to promote continuous improvement in operational performance, the development of new products and markets and the successful integration of acquisitions. The Committee will put particular emphasis on monitoring and reviewing the overall remuneration strategy to ensure it underpins the delivery of the Group's strategy. Last year the target weighting for the LTIP was amended to encourage an emphasis on longer-term revenue growth in accordance with the strategic plan and the targets set in 2017 will again reflect these aspirations. The targets set for the LTIP award will be intended to provide incentives to the Executive Directors to achieve significant growth in revenue and profits by 2019, while the Annual Bonus Plan will recognize the need to build profits and invest them in the business to support this longer-term growth.

The Remuneration Committee continues to ensure that the tenets of best practice are applied, namely timely and appropriate salary reviews, communicated in context to recipients; the clear setting of challenging variable pay targets, both long and short term, communicated clearly at the beginning of the performance periods to all recipients; and keeping the variable pay programmes as stable as possible, while ensuring that the Executive Directors are given incentives towards the achievement of the organization's strategic goals.

Alison Wood

Alison Wood
Chairman of the Remuneration Committee
23 March 2017

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 2016. A copy of the Committee's terms of reference is available on the BSI Group website.

Membership

During the year ended 31 December 2016 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, Devyani Vaishampayan, or her predecessor Jim Newell, have been invited to the Committee to attend its meetings. Directors do not attend meetings where their own remuneration is under consideration.

The Committee has access to specialist advice from executive reward consultants when required. Advisors are appointed for specific work, following a review of comparable firms, so that the Committee can be satisfied that their advice is objective and independent. During 2016 no external advice was sought.

Remuneration Committee attendance

The Committee met five times in the year ended 31 December 2016.

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

● Attended ○ Did not attend

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;
- used its judgement in deciding the application of specific LTIP rules for the award payable in 2016;
- considered and agreed payments for the 2015 bonus and the LTIP awards under the 2013 grant;
- considered the Chairman's fee and made no change;
- considered new pensions legislation and agreed to provide top-up supplements to employees who had reached maximum limits;
- agreed to update the definitions of Group profit for the Annual Bonus Plan and LTIP;
- discussed and agreed the Directors' remuneration report in the Company's 2015 Annual Report;
- agreed the Chief Executive's objectives for the forthcoming year;
- considered the findings of the Committee evaluation process; and
- reviewed the policy for Directors' expenses.

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 £500m and underlying operating profit of at least £50m by 2018 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 into the Group and for acquisitions 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 Remuneration Committee continued

Aligning remuneration to the delivery of BSI's strategy continued

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. For 2016, the Annual Bonus Plan targets were re-weighted to focus more closely on annual profit achievement while the LTIP targets were re-weighted to encourage an emphasis on longer-term revenue growth.

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 2016 reflect the achievement of the 2016 Annual Bonus Plan targets, shown on page 57, and of the 2014 LTIP targets, shown on page 57.

2016 remuneration

Single figure total (audited information)

							Variable pay receivable for 2016					
	Salaries and fees		Taxable benefits[1]		Pension benefits[2]		Bonus		LTIPs		Total	
Director	**Year ended 31 Dec 2016 £'000**	Year ended 31 Dec 2015 £'000	**Year ended 31 Dec 2016 £'000**	Year ended 31 Dec 2015 £'000	**Year ended 31 Dec 2016 £'000**	Year ended 31 Dec 2015 £'000	**Year ended 31 Dec 2016 £'000**	Year ended 31 Dec 2015 £'000	**Year ended 31 Dec 2016 £'000**	Year ended 31 Dec 2015 £'000	**Year ended 31 Dec 2016 £'000**	Year ended 31 Dec 2015 £'000
Executives												
Howard Kerr[3]	**421**	408	**26**	25	**—**	5	**362**	350	**342**	331	**1,151**	1,119
Craig Smith[4]	**314**	300	**21**	19	**—**	10	**220**	213	**196**	191	**751**	733
Dr Scott Steedman[5]	**235**	214	**15**	16	**13**	32	**173**	166	**154**	150	**590**	578
	970	922	**62**	60	**13**	47	**755**	729	**692**	672	**2,492**	2,430
Chairman												
Sir David Brown	**151**	149	**6**	5	**—**	—	**—**	—	**—**	—	**157**	154
Non-Executives												
Douglas Hurt	**37**	6	**—**	—	**—**	—	**—**	—	**—**	—	**37**	6
Alicja Lesniak[6]	**42**	38	**—**	—	**—**	—	**—**	—	**—**	—	**42**	38
Dr Stephen Page	**37**	12	**1**	—	**—**	—	**—**	—	**—**	—	**38**	12
Lucinda Riches	**42**	38	**—**	—	**—**	—	**—**	—	**—**	—	**42**	38
Alison Wood	**42**	41	**1**	1	**—**	—	**—**	—	**—**	—	**43**	42
	351	284	**8**	6	**—**	—	**—**	—	**—**	—	**359**	290
Total	**1,321**	1,206	**70**	66	**13**	47	**755**	729	**692**	672	**2,851**	2,720

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 £55,413 (2015: £50,617) supplement in lieu of pension contributions.

4 Salary includes £35,066 (2015: £25,685) supplement in lieu of pension contributions.

5 Salary includes £15,358 (2015: £nil) supplement in lieu of pension contributions.

6 2015 salary includes £15,000 received as a Board Advisor.

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 2016 (2015: none). Comparatives for 2015 have been restated to exclude former Directors.

Variable pay

Annual bonus for 2016

Annual bonuses for the year ended 31 December 2016 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 2015 Directors' remuneration report. Actual annual bonus amounts earned are based on salary and dependent upon the achievement of targets for Group profit for the Annual Bonus Plan (GPB), revenue and personal objectives. GPB was defined as 'underlying operating profit before discretionary bonus charges, LTIP charges and all foreign exchange adjustments'. Personal objectives are set and are measured by the Chairman for the Chief Executive and by the Chief Executive for the other Executives; all are reviewed by the Committee.

The table below sets out the percentage of base salary upon which potential 2016 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 2016, including the business plan targets for the 2016 acquisitions, were GPB of £49.3m and revenue of £363.1m at budgeted exchange rates. A threshold, representing 90% of both targets, had to be met before any bonus is earned. The total bonus percentage for on-target performance would be doubled if GPB reaches 110% of target. Bonus is earned on a straight-line basis from threshold to target and from 100% to 110% of GPB target if applicable.

Actual GPB at budget exchange rates achieved for 2016 was £56.0m (113% of GPB target). This is calculated as UOP at actual exchange rates of £50.1m, adjusted by adding back LTIP charges of £2.4m and bonus charges of £9.9m, and subtracting an exchange adjustment of £6.4m. Actual revenue achieved for 2016 was £401.8m. This is reduced by a £34.7m exchange adjustment to £367.1m at 2016 budget exchange rates. Accordingly, the annual bonuses earned in respect of 2016 were:

	Percentage of base salary					
2016 annual bonus payments (audited information)	Actual award based on GPB	Actual award based on revenue	Actual award based on personal objectives	Payable on achievement of 110% of GPB	Total actual award	Actual award
Howard Kerr	30%	10%	8.7%	50%	98.7%	£362,229
Craig Smith	24%	8%	6.4%	40%	78.4%	£220,108
Dr Scott Steedman	24%	8%	6.4%	40%	78.4%	£172,872

Long Term Incentive Plan vesting in 2016 (audited information)

In 2014, 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 2013 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 2016. 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 2014, the target levels for 2016 were MOP of £35.3m and revenue of £347.1m at 2014 budget exchange rates. Vesting would be on a predetermined scale beginning with 10% vesting at the minimum performance threshold of MOP of £33.5m and revenue of £329.7m, 50% vesting at the on-target performance of MOP of £35.3m and revenue of £347.1m and a maximum of 150% vesting at the maximum performance threshold of MOP of £37.3m and revenue of £367.0m. Vesting would be on a straight-line basis between performance levels.

Actual MOP at 2016 budget exchange rates was £51.0m, calculated as UOP at actual exchange rates of £50.1m, adjusted by adding back the amortization of acquired intangibles of £1.6m, pension administration fees of £0.5m, LTIP charges of £2.4m and above target bonus charges of £2.1m and subtracting an exchange adjustment of £5.7m. Actual revenue achieved for 2016 was £401.8m. This is reduced by a £34.7m exchange adjustment to £367.1m at 2016 budget exchange rates. This provided maximum vesting under the LTIP. Accordingly, the number of PUs vesting and the payments made were:

Long Term Incentive Plan vesting 2016	PUs awarded 2014	Vesting	Payment 2016
Howard Kerr	227,800	150%	£341,700
Craig Smith	130,750	150%	£196,125
Dr Scott Steedman	102,500	150%	£153,750

2016 remuneration continued

Variable pay continued

Long Term Incentive Plan awarded in 2016 (audited information)

In 2016 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 2018. GPL is defined as underlying operating profit before LTIP charges and all foreign exchange adjustments. The PUs awarded under the LTIP in 2016 were:

2016 LTIP awards	Basis – salary multiple	PUs awarded 2016	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%	239,860	10%	50%	150%	31 December 2018
Craig Smith	50%	137,500	10%	50%	150%	31 December 2018
Dr Scott Steedman	50%	107,500	10%	50%	150%	31 December 2018

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 2016	239,860	137,500	107,500	10%	50%	150%	31 December 2018
PUs awarded 2015	233,495	134,000	105,000	10%	50%	150%	31 December 2017
Total PUs held	473,355	271,500	212,500				

Pension contributions

The Company made contributions of 18% of Howard Kerr's base salary and 15% of Craig Smith's base salary as salary supplements in lieu of pension contributions. The Company made contributions of 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.

Loss of office payments (audited information)

No payments for loss of office were made in 2016 (2015: £nil).

Payments to past Directors (audited information)

No payments to past Directors were made in 2016 (2015: £nil).

Remuneration of the Chief Executive

Table of historic data (audited information)

	Chief Executive single figure remuneration total £'000	Annual bonus payout against target	LTIP vesting rates against target
2016	1,151	197.4%	150.0%
2015	1,119	195.6%	150.0%
2014	765	190.5%	–
2013	596	100.9%	–
2012	576	102.0%	–
2011	792	118.1%	100.5%
2010	706	200.0%	–
2009	798*	129.5%	–

* Includes £215,000 relocation contribution.

Howard Kerr was Chief Executive for each year shown.

2016 remuneration change from 2015

	% change in salary	% change in taxable benefits	% change in bonus
Chief Executive	+3.2%*	+6.9%	+3.5%
UK employees	+2.2%	-1.4%	+4.7%

* +2.2% if salary paid in lieu of pension contributions is excluded.

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.

Executive Directors' Non-Executive Directorships

In order to encourage professional development, Executive Directors may, with the agreement of the Board, take on external Non-Executive Directorships. 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, 27.3% of profits made above budget were used for variable pay awards across the Group.

Statement of implementation of Directors' remuneration policy

During 2016, all Directors' remuneration was awarded within the policy set out in the Directors' remuneration report in the Annual Report and financial statements 2015.

Remuneration policy 2017

The Directors' remuneration policy is set out in the table opposite. It applies to remuneration awards made from 1 January 2017 and is set for a period of one year. Areas of change from the policy operated in 2016 are shown in the table. 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.

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.

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.
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.

* The wording in this section has been revised for clarity from that set out in the Directors' remuneration report in the Annual Report and financial statements 2015 and does not represent a change in policy.

Maximum value	Performance metrics	Changes from 2016 policy
	Not applicable.	
	Not applicable.	
	Not applicable.	To provide a cash supplement to employees who have currently reached their lifetime allowance limit and to those who would exceed their Tapered Annual Allowance by contributing at the level required to receive the maximum employer contribution.
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.*	The definition of 'Group profit for the Annual Bonus Plan' has been revised to be 'underlying operating profit before discretionary bonus charges, LTIP charges, the amortization of acquired intangibles and all foreign exchange adjustments'.
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.	The definition of 'Group profit for the LTIP' has been revised to be 'underlying operating profit before LTIP charges, the amortization of acquired intangibles and all foreign exchange adjustments'.

Remuneration policy 2017 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:

	Service contract dated	Appointment commenced	Notice period provided for
Howard Kerr	21 October 2008	1 November 2008	12 months by either party
Craig Smith	20 July 2011	15 August 2011	6 months by either party
Dr Scott Steedman	7 November 2012	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:

	Letter of appointment dated	Date of appointment	Role
Sir David Brown	27 May 2010	27 May 2010	Non-Executive Director
	19 December 2011	1 December 2011	Deputy Chairman
		31 March 2012	Chairman
Douglas Hurt	21 October 2015	1 November 2015	Non-Executive Director
Alicja Lesniak	24 September 2014	1 October 2014	Board Advisor
	1 June 2015	1 June 2015 (to AGM 2017)	Non-Executive Director
Dr Stephen Page	26 June 2015	1 September 2015	Non-Executive Director
Lucinda Riches	23 May 2011	19 May 2011	Board Advisor
	17 May 2012	17 May 2012	Non-Executive Director
	22 May 2014	22 May 2014 (to AGM 2017)	re-appointed
Alison Wood	22 July 2014	1 September 2014	Non-Executive Director

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, 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.

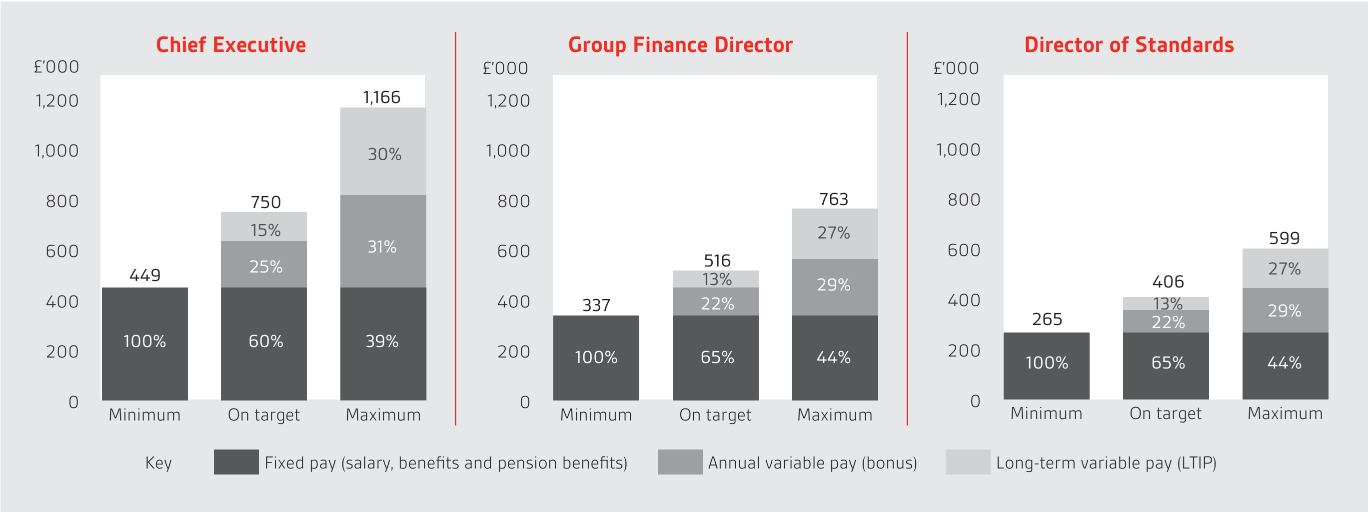
Policy on termination payments

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 Executive Directors and the Chairman 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 2017

The charts below provide an illustration of what could be received by each Executive Director for 2017, 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 2016 and actual 2016 benefit and pension benefit amounts; annual bonus awards for potential payment with respect to the 2017 financial year are based on base salary at 31 December 2016; and LTIPs are based on the 2015 awards potentially vesting for the performance period ending 31 December 2017.

Consideration of employment conditions elsewhere in the Group

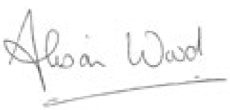
Salaries and benefits are regularly reviewed and compared to the general market (including FTSE 350 companies), economic indicators and competitor businesses. The survey data is compiled from both generic third-party surveys and specific, targeted research. In considering the salary levels for the Executive 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
23 March 2017

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 2016.

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 2016, 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 44 to 48.

The Board

The members of the Board are listed on pages 40 and 41 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 Tony Wales.

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 Sir David Brown, Howard Kerr and Lucinda Riches will be standing for re-election at the 2017 Annual General Meeting.

Annual General Meeting

The 2017 Annual General Meeting will be held at 4pm on Thursday 18 May 2017 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 2016 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 page 37.

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 36 to 39. This review also contains disclosures of the Group's greenhouse gas emissions. The Company made no political donations during the year (2015: £nil).

Principal risks and uncertainties

The principal risks and uncertainties facing the business are detailed on pages 26 and 27.

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 2016, the Directors drew up the strategic plan for the Group until the end of 2019. 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. 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 2019, 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

Tony Wales
Company Secretary
23 March 2017

Independent auditors' report

to the Board of Directors of The British Standards Institution

Report on the Group financial statements

Our 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 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements 2016 (the 'Annual Report'), comprise:

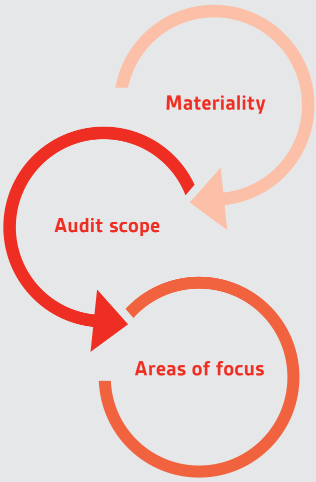
- the Group consolidated balance sheet as at 31 December 2016;
- the Group consolidated income statement and Group consolidated statement of comprehensive income for the year then ended;
- the Group consolidated statement of cash flows for the year then ended;
- the Group consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and applicable law.

Our audit approach

Overview



- Overall Group materiality: £4.1m which represents approximately 10% of profit before tax.

- We performed an audit of the complete financial information of the UK Standards and UK Assurance 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 six further reporting locations in the UK, Ireland, the USA and China.
- The UK Group engagement team undertook site visits to South Korea and India.
- The reporting locations subject to audit procedures account for 70% of the Group's operating profit and 95% of the Group's profit before tax.

- Risk of fraud in revenue recognition.
- Acquisition accounting.
- Valuation of defined benefit pension scheme assets and liabilities.
- Taxation.
- Consideration of goodwill and intangible assets for impairment.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

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

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table on pages 67 and 68. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

The scope of our audit and our areas of focus continued

Area of focus	How our audit addressed the area of focus
Risk of fraud in revenue recognition	
The Group has a variety of material revenue streams, with distinct characteristics and revenue recognition methods (as disclosed in Note 2 to the financial statements), including: • standards and other publications; • assessment, certification and training services; • royalty and copyright income; • professional services consultancy; and • international consultancy projects. Revenue recognition for standards and other publications; assessment, certification and training services; and royalty and copyright income involves limited judgement, given that these streams comprise revenue from the sale of goods and short-term services where terms are straightforward and non-complex. Professional services consultancy projects are predominantly time and materials contracts, where revenue is recognized as it is incurred. The terms are also deemed to be straightforward and non-complex. However, given the value of these streams and the high volume of transactions therein, a significant amount of testing was required to obtain the evidence we needed for our audit. This was therefore an area of focus for us owing to the audit effort required to address the risk of material misstatement in these streams. Furthermore, international consultancy projects are long-term, large-scale contracts, recognized according to the percentage of completion. A degree of judgement is therefore required in estimating the amount of revenue earned in the accounting period and we therefore focused our testing on the stage of completion of significant contracts.	We assessed whether the Group's revenue recognition policies complied with IFRSs, and tested the application of those policies. We found no material exceptions in this regard. We evaluated the design and implementation of the relevant controls, and tested the operating effectiveness of internal controls over the completeness, accuracy and cut off of revenue recognized in the financial statements. We agreed a sample of sales of standards and other publications, and assessment, certification and training and professional services consulting to proof of delivery documents, and agreed royalty and copyright income to underlying signed agreements to test that genuine transactions had been accurately recorded in the correct period. This testing identified no material misstatements. We also used computer assisted auditing techniques to test revenues recognized in the USA, China, Ireland and at the UK operating locations. Through this process, we matched revenue transactions to accounts receivable, accrued revenue and cash transactions in order to test that revenue transactions were genuine and had been accurately recorded. We identified no material exceptions in this regard. For international consultancy project revenues, we considered the appropriateness of the Directors' estimate of percentage of completion and the respective revenue amounts recognized by recalculating the percentage using actual days worked from timesheets and budgeted time to completion. Furthermore, we tested the outturn of the Directors' historical estimates of percentage of completion by scanning revenue accounts to identify unusual adjustments for contracts that ended during the year. We found that, based on our audit work, the Directors' percentage of completion estimates appear reasonable.
Acquisition accounting	
In 2016 the Group has made a number of acquisitions. Espion Limited was purchased on 1 April 2016 for consideration of €8.3m. On 16 September 2016, the Group acquired Creative Environment Solutions Corporation (CES), incorporated in New York, for consideration of $12.9m. The Group also acquired Info-Assure Limited, based in Farnborough, on 1 October 2016 for consideration of £9.7m. In August 2016, the Group completed the acquisition of Atrium Environmental Health and Safety Services, LLC in Virginia, for consideration of $1.7m. The Group also acquired Quantum Management Group, Inc. based in Clifton, New Jersey on 30 November 2016 for cash consideration of $3.2m.	We have audited the Directors' work over the opening balance sheets, working capital adjustments and the work of management's experts in determining the identifiable net assets on acquisition and the calculation of goodwill arising on the transactions. We have evaluated the key assumptions applied in determining the fair value measurements of assets and liabilities acquired. In particular in considering the fair values allocated to the acquired intangible assets we have assessed the discount rates used, the terminal value calculations and the estimated useful economic lives assigned. We have also involved our tax specialists in determining the appropriate deferred taxation liabilities to be recognized upon the intangible assets acquired. We understand the Directors' accounting treatment and concur with the final valuations. We have, in addition, involved our valuation specialists to evaluate the findings of management's experts. We found that the identifiable net assets and the purchase price allocations have been completed as required by IFRS 3.

Report on the Group financial statements continued

Our audit approach continued

The scope of our audit and our areas of focus continued

Area of focus	How our audit addressed the area of focus
Valuation of defined benefit pension scheme assets and liabilities	
The Group has defined benefit pension plans with net retirement benefit obligation liabilities of £105.4m, 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 103 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.	In respect of the UK pension scheme, 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. Overall, we consider the judgements taken and assumptions made by the Directors to be supportable and reasonable.
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. In addition, taxation is an area of focus in relation to the current and deferred tax impact of the acquisitions made in the year.	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 this in our report to the Audit Committee. We assessed the recoverability and valuation of deferred tax assets. Overall, we consider the calculation of current and deferred tax charges and balances to be reasonable.
Consideration of goodwill and intangible assets for impairment	
The Group has intangible assets (including goodwill) of £97.3m, 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 carrying value of intangible assets and goodwill. The Directors' assessment of the 'value in use' of the Group's cash-generating units (CGUs) involves judgements about the future results of the business, particularly assumptions around growth rates and the discount rates applied to future cash flow forecasts, where there is a higher degree of sensitivity. Based on historical performance, the Directors believe there is significant headroom between the value in use for all CGUs and their carrying value. This remained an area of focus for us as a result of the size of the related balances.	We evaluated the Directors' future cash flow forecasts, and the process by which they were drawn up, including comparing them to the latest Board-approved budgets and no exceptions were noted in our testing. We also tested the mathematical accuracy of the underlying calculations and we found no material misstatements from our testing. Based on our audit work, we found that the Directors' assumptions were supportable and within a range that we considered to be supportable and reasonable. We challenged the Directors on the adequacy of their sensitivity calculations over all CGUs in respect of the key assumptions above. For all CGUs we calculated the degree to which these assumptions would need to move, individually and in combination, before impairment would be triggered. We discussed the likelihood of such movements arising with the Directors and, based on our understanding of the business and other available evidence, agreed that they were unlikely. As a result, the Directors' assessment that no material impairment provisions were identified in respect of intangible assets and goodwill is deemed to be reasonable.

Report on the Group financial statements continued

Our audit approach continued

How we tailored the audit scope

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

In addition to the work performed over the financially significant components, we have also targeted the three more significant acquisitions made in the year within our scoping. The assessment of which acquisitions should be considered significant was based on those acquisitions with purchase consideration in excess of the Group overall materiality threshold and a risk-based assessment.

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 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	£4.1m (2015: £3.1m).
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 profit before tax provides us with a consistent year on year basis for determining materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £400,000 (2015: £300,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The Directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the 'Code') as if the parent company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

As a result of the Directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 49, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on page 51, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

Other required reporting continued

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 Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the Directors' confirmation on page 26 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 65 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 material to add or to draw attention to.

Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 49, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with paragraph 21 of The British Standards Institution's Royal Charter and Bye-laws and applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the 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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the parent company financial statements of The British Standards Institution for the year ended 31 December 2016.

John Minards (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 March 2017

Consolidated income statement

for the year ended 31 December 2016

	Note	2016 £m	2015 £m
Revenue	5, 6	**401.8**	331.1
Cost of sales		**(209.8)**	(175.9)
Gross profit		**192.0**	155.2
Selling and distribution expenses		**(50.5)**	(42.2)
Administrative expenses		**(91.4)**	(77.6)
Operating profit before exceptional costs	5	**50.1**	35.4
Exceptional operating costs	7	**(2.8)**	(1.3)
Operating profit	7	**47.3**	34.1
Finance income	11	**0.2**	0.1
Finance costs	11	**(2.3)**	(2.6)
Profit before income tax		**45.2**	31.6
Income tax expense	12	**(13.8)**	(7.9)
Profit for the year		**31.4**	23.7

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

The accompanying notes on pages 76 to 108 form an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2016

	Note	2016 £m	2015 £m
Profit for the year		**31.4**	23.7
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefit obligations, net of taxes	24b	**(35.7)**	1.2
Impact of change in the UK tax rate on deferred tax		**(1.0)**	(2.3)
		(36.7)	(1.1)
Items that may be subsequently reclassified to profit or loss			
Net investment and cash flow hedges		**1.9**	(0.6)
Currency translation differences		**7.9**	(0.1)
		9.8	(0.7)
Other comprehensive loss for the year, net of taxes		**(26.9)**	(1.8)
Total comprehensive income for the year		**4.5**	21.9

The accompanying notes on pages 76 to 108 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Note	Retained earnings £m	Translation reserve £m	Total £m
At 1 January 2015		57.6	(1.1)	56.5
Profit for the year		23.7	—	23.7
Re-measurements of post-employment benefit obligations, net of taxes	24b	1.2	—	1.2
Impact of change in the UK tax rate on deferred tax		(2.3)	—	(2.3)
Net investment and cash flow hedges		—	(0.6)	(0.6)
Currency translation differences		—	(0.1)	(0.1)
At 31 December 2015		**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**

The accompanying notes on pages 76 to 108 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 impacts of UK tax rate changes on deferred tax.

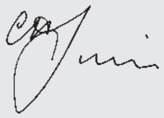
Translation reserve

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 2016

	Note	**2016 £m**	2015 £m
Assets			
Non-current assets			
Property, plant and equipment	13	**25.8**	20.6
Goodwill	14	**65.6**	41.7
Intangible assets	14	**31.7**	23.2
Deferred tax assets	16	**31.6**	23.2
Trade and other receivables	19	**4.9**	3.4
Total non-current assets		**159.6**	112.1
Current assets			
Inventories	18	**0.1**	0.1
Trade and other receivables	19	**101.4**	77.2
Derivative financial instruments	20	**—**	—
Current tax assets		**0.9**	2.3
Cash and cash equivalents	21	**48.1**	51.0
Total current assets		**150.5**	130.6
Total assets		**310.1**	242.7
Liabilities			
Non-current liabilities			
Deferred tax liabilities	16	**(10.6)**	(6.0)
Retirement benefit obligations	24	**(105.4)**	(71.9)
Provisions for liabilities and charges	23	**(1.6)**	(1.4)
Trade and other payables	22	**(9.0)**	(6.7)
Total non-current liabilities		**(126.6)**	(86.0)
Current liabilities			
Trade and other payables	22	**(94.4)**	(72.3)
Derivatives financial instruments	20	**(0.1)**	—
Current tax payables		**(5.4)**	(5.7)
Provisions for liabilities and charges	23	**(0.7)**	(0.3)
Total current liabilities		**(100.6)**	(78.3)
Total liabilities		**(227.2)**	(164.3)
Net assets		**82.9**	78.4
Reserves			
Retained earnings		**74.9**	80.2
Translation reserve		**8.0**	(1.8)
Total reserves		**82.9**	78.4

The accompanying notes on pages 76 to 108 form an integral part of the consolidated financial statements. The consolidated financial statements on pages 71 to 75 were approved by the Board of Directors on 23 March 2017 and were signed on its behalf by:



Craig Smith FCCA
Group Finance Director
23 March 2017

Consolidated statement of cash flows
for the year ended 31 December 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Profit before income tax		**45.2**	31.6
Adjustments for:			
– Retirement benefit charges	24b	**0.5**	0.5
– Depreciation of property, plant and equipment	7	**4.2**	3.6
– Amortization of intangible assets	7	**6.5**	6.9
– Impairment of goodwill	7	**–**	0.1
– Impairment of intangible assets	7	**–**	0.8
– Net loss on disposal of businesses	7	**–**	0.1
– Loss on disposal of tangible assets	7	**0.4**	–
– Loss on disposal of intangible assets	7	**0.1**	–
– Provision for impairment of trade receivables	7	**1.1**	0.3
– Bad debts written off	7	**0.5**	0.5
– Finance income	11	**(0.2)**	(0.1)
– Finance costs	11	**2.3**	2.6
Changes in working capital (excluding the exchange differences on consolidation):			
– Decrease/(increase) in inventories		**0.1**	(0.1)
– Increase in trade and other receivables		**(10.2)**	(11.0)
– Increase in trade and other payables		**10.0**	9.4
– Increase in provisions and other liabilities		**0.6**	0.5
Retirement benefit payments	24b	**(12.5)**	(12.5)
Cash generated from operations		**48.6**	33.2
Interest received		**0.2**	0.1
Income tax paid		**(12.5)**	(8.6)
Net cash generated from operating activities		**36.3**	24.7
Cash flows from investing activities			
Purchases of property, plant and equipment	13	**(8.8)**	(3.8)
Purchases of intangible assets	14	**(3.3)**	(3.0)
Acquisition of subsidiary and businesses, net of cash acquired	15	**(29.3)**	(19.7)
Net cash used in investing activities		**(41.4)**	(26.5)
Net decrease in cash and cash equivalents		**(5.1)**	(1.8)
Opening cash and cash equivalents		**51.0**	52.8
Exchange gains on cash and cash equivalents		**2.2**	–
Closing cash and cash equivalents	21	**48.1**	51.0

The accompanying notes on pages 76 to 108 form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2016

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 23 March 2017.

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 2016 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 2017, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except as set out below:

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. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in the 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. 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. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

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. The standard replaces IAS 18, "Revenue" and IAS 11, "Construction Contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

The Group has undertaken a preliminary review of the potential impact of IFRS 15 and has currently concluded that it is not expected to have a material impact on the Group results. The Group will continue to monitor this conclusion during 2017.

2. Principal accounting policies continued

b. Changes in accounting policy and disclosures continued

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

IFRS 16, "Leases" addresses the definition of a lease and recognition and measurement of leases. The standard establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17, "Leases" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15, "Revenue from Contracts with Customers" at the same time.

The Group has made a preliminary assessment of the impact of IFRS 16 based on its operating leases in 2016. The review concludes that lease assets and corresponding lease obligations of approximately £50m will be introduced to the Group's consolidated balance sheet. Lease costs in the Group consolidated profit and loss account within the scope of IFRS 16 of £8.7m would be replaced by depreciation costs of between £7.8m and £7.0m and finance costs of between £0.9m and £1.7m at an average implicit lease interest rate of 2% or 5% above base rate respectively.

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.

2. Principal accounting policies continued

c. Basis of consolidation continued

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.

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.

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 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 or five years.

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

iii. Acquired intangible assets

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

Acquired intangibles include customer relationships, intellectual property, customer order backlog, computer software and the value of sellers' non-compete agreements. These are capitalized based on valuations using discounted cash-flow analysis and amortized on a straight-line basis over their estimated useful economic lives. The estimated useful life of these intangible assets is one to 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).

2. Principal accounting policies continued

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' and 'cash and cash equivalents' in the balance sheet (Notes 19 and 21).

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. 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.

k. 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.

2. Principal accounting policies continued

k. Impairment of financial assets continued

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.

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.

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.

2. Principal accounting policies continued

n. 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.

o. 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.

p. 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.

q. 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.

r. 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.

2. Principal accounting policies continued

s. Retirement benefit obligations

i. Defined benefit pension schemes

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

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

The valuation of the Group's net obligation is performed by an independent qualified actuary as determined by the Trustees. Pension scheme assets are measured using market values for quoted assets. The MetLife Annuity Policy asset is valued at an actuarial estimate using the assumptions shown in Note 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.

t. 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.

u. 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.

v. Borrowing costs

Borrowing costs are recognized as an expense when incurred.

2. Principal accounting policies continued

w. 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.

x. Inventories

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

y. Other income

i. Interest income

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

ii. Rental income

The Group sub-lets a number of leased properties in the UK. Rental income is recognized on an accrual basis in accordance with the relevant agreements and is credited to administrative expenses in the income statement.

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.

Financial risk factors continued

a. Market risk – foreign exchange risk continued

Currency	Year-end exchange rate	Average three-year exchange rate movement*	Exchange movement modelled*	Adverse impact on operating profit
Australian Dollar	1.70	+3%	+10%	£0.2m
Chinese Renminbi	8.52	-3%	+10%	£0.1m
Euro	1.17	+1%	+10%	–
Japanese Yen	142.67	-1%	+10%	£0.1m
US Dollar	1.23	-5%	+10%	£0.8m

* 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 £1.7m.

b. Credit risk

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

	2016 £m	2015 £m
Bank deposits (Note 21)	48.1	51.0
Trade receivables (Note 19)	69.5	51.1
Other receivables	36.8	29.5
Total credit risk	**154.4**	131.6

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. No work is undertaken for customers with overdue debts outstanding. 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 are transferred to Group Treasury. Group Treasury invests surplus cash in interest-bearing current accounts, term deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the Group held no money market funds but held other liquid assets of £48.1m 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.

3. Financial risk management continued

Financial risk factors continued

c. Liquidity risk continued

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 2016 and 2015.

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**

At 31 December 2015	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	48.0	0.3	1.5	4.2

4. Critical accounting estimates and judgements

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

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

a. Impairment of goodwill

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

b. Income taxes

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

c. Deferred tax assets

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

4. Critical accounting estimates and judgements continued

d. Retirement benefit obligations

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

The principal assumptions are detailed in Note 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 2016		
	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	0.25% p.a.	(16.5)	17.3
Inflation rate*	0.25% p.a.	7.5	(4.4)
Salary escalation	0.25%	1.3	
Life expectancy	Approximately 1 year	12.7	

* 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 – Standards 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 BSI Standards 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.

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.

5. Segment information continued

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

	EMEA £m	UK Standards £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 89.

The segment information provided to the Board for the reportable segments for the year ended 31 December 2015 is as follows:

	EMEA £m	UK Standards £m	Americas £m	Asia Pacific £m	Corporate £m	Group £m
Total segment revenue	114.4	56.2	92.3	76.2	—	339.1
Inter and intra-segment revenue	(3.2)	(0.4)	(1.2)	(3.2)	—	(8.0)
Revenue from external customers	111.2	55.8	91.1	73.0	—	331.1
Operating profit before exceptional costs	8.5	17.0	11.2	5.8	(7.1)	35.4
Depreciation and amortization	(1.9)	(1.5)	(2.1)	(1.1)	(3.9)	(10.5)
Finance income	—	—	—	—	0.1	0.1
Finance costs	—	—	—	—	(2.6)	(2.6)
Income tax expense	(3.5)	(2.5)	(2.6)	(0.8)	1.5	(7.9)
Total assets[3]	50.2	19.7	59.0	43.1	69.4	241.4
Total assets include:						
Intangible asset impairment (Note 14)	—	—	—	—	(0.9)	(0.9)
Additions to non-current assets (other than financial instruments and deferred tax assets)	1.4	1.4	21.6	0.7	3.2	28.3
Total liabilities[1,3]	(25.1)	(19.7)	(19.5)	(16.2)	(82.5)[2]	(163.0)

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 £70.9m relating to pension liabilities for the Group which have not been allocated to the segments disclosed above.

3 The reconciliation of total assets and liabilities to those shown on the balance sheet is shown on page 89.

5. Segment information continued

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

	2016 £m	2015 £m
Operating profit before exceptional costs for reportable segments	**57.5**	42.5
Corporate	**(7.4)**	(7.1)
Operating profit before exceptional costs	**50.1**	35.4
Acquisition costs	**(2.4)**	(0.7)
Impairment of intangible assets (Note 14)	**–**	(0.9)
Property costs on refurbishment of head office	**(0.4)**	–
Restructuring and reorganization provision release	**–**	0.3
Finance costs	**(2.3)**	(2.6)
Finance income	**0.2**	0.1
Profit before income tax	**45.2**	31.6

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:

	2016 £m	2015 £m
Segment assets for reportable segments	**242.4**	172.0
Corporate assets	**65.6**	69.4
Reclassifications:		
Trade and other receivables and taxation	**2.1**	1.3
Total assets as per the balance sheet	**310.1**	242.7

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:

	2016 £m	2015 £m
Segment liabilities for reportable segments	**110.7**	80.5
Corporate liabilities	**114.4**	82.5
Reclassifications:		
Trade and other payables and taxation	**2.1**	1.3
Total liabilities as per the balance sheet	**227.2**	164.3

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

	2016 £m	2015 £m
Knowledge	**59.4**	56.3
Assurance	**292.6**	246.6
Compliance	**49.8**	28.2
Revenue from external customers	**401.8**	331.1

Based on where the customer is located, revenue from external customers in the UK was £117.1m (2015: £109.6m), and the total of revenue from external customers in other countries was £284.7m (2015: £221.5m). The major components of the total of revenue from external customers from other countries were £107.2m (2015: £80.4m) in the US, £24.4m (2015: £17.8m) in Japan, £16.3m (2015: £15.4m) in Australia and £26.9m (2015: £21.3m) in China.

The total of non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets located in the UK was £48.8m (2015: £36.9m), and the total of these non-current assets located in other countries was £74.3m (2015: £48.9m).

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 (2015: none).

6. Revenue

Revenue recognized in the income statement is analysed as follows:

	2016 £m	2015 £m
Sale of goods	**10.4**	10.5
Rendering of services	**374.8**	304.7
Copyright and royalty income	**16.6**	15.9
Total revenue	**401.8**	331.1

7. Operating profit

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

	Note	2016 £m	2015 £m
Employee benefit expense	8	**185.4**	158.1
Depreciation of property, plant and equipment	13	**4.2**	3.6
Impairment of goodwill	14	**—**	0.1
Impairment of intangible assets	14	**—**	0.8
Amortization	14	**6.5**	6.9
Provision for impairment of trade receivables	19	**1.1**	0.3
Operating lease payments for plant and machinery	10	**2.5**	2.3
Operating lease payments for land and buildings	10	**8.0**	7.5
Loss on disposal of tangible assets	13	**0.4**	—
Loss on disposal of intangible assets	14	**0.1**	—
Net loss on disposal of businesses		**—**	0.1
Rental income from sub-lease of properties	10	**(0.2)**	(0.5)
Bad debts written off		**0.5**	0.5
Other exchange (gains)/losses		**(0.8)**	0.3
Auditors' remuneration:			
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements		**0.5**	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)/income	Note	2016 £m	2015 £m
Acquisition costs		**(2.4)**	(0.7)
Impairment cost	14	**—**	(0.9)
Property costs on refurbishment of head office		**(0.4)**	—
Restructuring and reorganization provision release		**—**	0.3
Total exceptional operating costs		**(2.8)**	(1.3)

7. Operating profit continued

Exceptional operating costs amounted to £2.8m (2015: £1.3m) and comprised:

- £2.4m of costs associated with the acquisitions of EHS, Espion, Atrium, CES, Info-Assure and QMG (Note 15); and
- £0.4m of additional property costs from displacement arising during the refurbishment of the Group's head office in Chiswick.

In 2015, operating exceptional costs comprised:

- £0.7m of costs associated with the acquisition of BSI Services and Solutions (West) Inc. (EHS), (formerly known as Environmental and Occupational Risk Management Inc.) and the business of Hill Country Environmental Inc.;
- £0.8m impairment of a part of the Entropy capitalized software assets;
- £0.1m impairment of goodwill relating to Entropy International Ltd.; and
- £0.3m credit, being the release of a restructuring provision related to the restructuring of the business in Japan.

The corporation tax impact of exceptional items was £nil (2015: £nil).

8. Employee benefit expense

	Note	**2016 £m**	2015 £m
Wages and salaries (including termination benefits of £1.3m (2015: £1.3m))		**156.1**	132.6
Social security costs		**16.9**	14.4
Long Term Incentive Plan (LTIP) expense		**2.4**	2.0
Other pension costs – defined contribution plans	24a	**10.0**	9.1
Employee benefit expense charged in arriving at operating profit	7	**185.4**	158.1
Net pension finance costs	11, 24b	**2.3**	2.6
Total employee benefit expense charged in arriving at profit before income tax		**187.7**	160.7

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

	2016 Number	2015 Number
Production, assessment, training and laboratory	**2,045**	1,815
Sales and distribution	**674**	655
Administration	**1,116**	1,055
Total headcount	**3,835**	3,525

The headcount above includes external resource of 362 (2015: 274).

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 54 to 63.

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 15 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:

	2016			2015		
	Land and buildings £m	**Other £m**	**Total £m**	Land and buildings £m	Other £m	Total £m
No later than 1 year	**7.6**	**2.3**	**9.9**	7.5	2.2	9.7
Later than 1 year and no later than 5 years	**23.7**	**2.6**	**26.3**	21.2	3.6	24.8
Later than 5 years	**14.5**	**—**	**14.5**	16.4	—	16.4
Minimum lease payments	**45.8**	**4.9**	**50.7**	45.1	5.8	50.9

A number of leased properties in the UK have been sub-let by the Group. Annual income from sub-leases in the year was £0.2m (2015: £0.5m). The future aggregate minimum sub-lease payments expected to be received under non-cancellable operating sub-leases at the balance sheet date are as follows:

Land and buildings	**2016 £m**	2015 £m
No later than 1 year	**0.1**	0.5
Later than 1 year and no later than 5 years	**—**	—
Minimum sub-lease receipts	**0.1**	0.5

11. Finance income and costs

	2016 £m	2015 £m
Bank interest receivable on cash and short-term deposits	**0.2**	0.1
Other external interest	**—**	—
Finance income	**0.2**	0.1
Net interest on the net defined benefit pension obligation (Note 8 and Note 24b)	**(2.3)**	(2.6)
Finance costs	**(2.3)**	(2.6)

12. Income tax expense

	2016 £m	2015 £m
Current tax		
UK tax current year	**6.2**	4.8
UK tax prior years	**(0.1)**	0.1
Foreign tax current year	**9.4**	6.3
Foreign tax prior years	**0.7**	0.1
Total current tax	**16.2**	11.3
Deferred tax (Note 16)		
Origination and reversal of temporary differences	**(1.7)**	(1.6)
Prior year deferred tax adjustments	**–**	(0.5)
Impact of change in UK tax rate	**(0.7)**	(1.3)
Total deferred tax	**(2.4)**	(3.4)
Total income tax expense	**13.8**	7.9

The tax on the Group's profit before tax is higher (2015: higher) than the theoretical amount that would arise using the weighted average UK statutory tax rate of 20% (2015: 20.25%) applicable to profits of the consolidated entities as follows:

	2016 £m	2015 £m
Profit before income tax	**45.2**	31.6
Tax calculated at the weighted average UK statutory tax rate of 20% (2015: 20.25%)	**9.0**	6.4
Effects of:		
– Expenses not deductible for tax purposes	**2.3**	1.3
– Tax losses for which no deferred income tax asset was recognized	**0.3**	0.4
– Income not subject to tax	**–**	(0.1)
– Higher tax rates on overseas earnings	**2.3**	1.4
– Tax adjustments arising from change in UK tax rates	**(0.7)**	(1.3)
Adjustments to tax charge in respect of previous periods:		
– UK	**(0.1)**	(0.4)
– Foreign	**0.7**	0.2
Total income tax expense	**13.8**	7.9

The Group effective tax rate (ETR) on profits before tax and goodwill impairment for the year is 30.5% (2015: 25.1%). The ETR at 30.5% comprises a current year tax charge of 29.2% (2015: 25.7%) and a prior year tax charge of 1.3% (2015: tax credit of 0.6%) arising from net under-provided UK and foreign tax.

The ETR for the Group's underlying business operations for the current year is 28.6% (2015: 28.2%) after removing the tax impact of non-operational exceptional, finance costs and prior years' items.

The ETR at 30.5% is further reconciled from the UK statutory tax rate of 20% by additional higher overseas Group taxes of 5.1% and prior years' tax charge of 1.3%, the credit impact of the reduction in UK tax rates 1.5% and the net ETR increase of 5.6% for Group tax permanent and temporary differences and tax losses not recognized.

The Budget announced by the Chancellor on 16 March 2016 included further changes to the main rates of corporation tax for UK companies. The main rate of corporation tax will continue to decrease from 20% to 19% from 1 April 2017 as announced previously in the 2015 Summer Budget but the decrease from 19% to 18% from April 2020 also announced in the 2015 Budget will now instead reduce to 17% from 1 April 2020.

These amendments are included in the Finance Bill 2016, which received Royal Assent on 15 September 2016. Therefore, the decreases in tax rates to 19% and then to 17% were substantively enacted for the purposes of IAS 12 on 15 September 2016. As such, the impact of these step changes in the UK tax rate are included in these financial statements.

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 2015	11.6	6.5	0.9	17.2	36.2
Additions	—	—	1.2	2.6	3.8
Additions: acquisition of subsidiary	—	—	—	0.2	0.2
Disposals	(0.7)	—	—	(0.9)	(1.6)
Reclassifications	0.3	—	(1.0)	0.7	—
Reclassifications from computer software (Note 14)	—	—	—	1.6	1.6
Exchange differences	—	—	—	0.1	0.1
At 31 December 2015	**11.2**	**6.5**	**1.1**	**21.5**	**40.3**
Additions	**—**	**0.9**	**6.6**	**1.3**	**8.8**
Additions: acquisition of subsidiaries (Note 15)	**—**	**—**	**—**	**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**
Accumulated depreciation and impairment					
At 1 January 2015	(2.9)	(3.5)	—	(10.9)	(17.3)
Charge for the year (Note 7)	(0.3)	(0.4)	—	(2.9)	(3.6)
Disposals	0.7	—	—	0.9	1.6
Reclassifications from computer software (Note 14)	—	—	—	(0.5)	(0.5)
Exchange differences	—	—	—	0.1	0.1
At 31 December 2015	**(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)**
Net book value at 31 December 2016	**8.6**	**6.2**	**1.7**	**9.3**	**25.8**
Net book value at 31 December 2015	8.7	2.6	1.1	8.2	20.6

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 £1.5m (2015: £0.2m) has been contracted for but not provided 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 2015	36.1	15.4	15.1	8.0	1.9	76.5
Additions	—	1.2	1.5	—	0.3	3.0
Additions: acquisition of subsidiary	12.3	0.1	—	8.9	—	21.3
Disposal	(0.1)	(0.2)	(0.3)	—	—	(0.6)
Impairment*	(0.1)	—	(1.3)	—	—	(1.4)
Reclassifications	—	0.7	(0.7)	—	—	—
Reclassifications to property, plant and equipment (Note 13)	—	(1.3)	(0.3)	—	—	(1.6)
Exchange differences	(0.1)	—	—	(0.2)	—	(0.3)
At 31 December 2015	**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 (Note 15)	**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**
Accumulated amortization and impairment						
At 1 January 2015	(6.4)	(9.9)	(4.3)	(5.2)	(1.1)	(26.9)
Charge for the year (Note 7)	—	(2.0)	(2.8)	(1.8)	(0.3)	(6.9)
Disposals	—	0.2	0.3	—	—	0.5
Impairment*	—	—	0.5	—	—	0.5
Reclassifications to property, plant and equipment (Note 13)	—	0.4	0.1	—	—	0.5
Exchange differences	—	—	—	0.3	—	0.3
At 31 December 2015	**(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)**
Net book value at 31 December 2016	**65.6**	**4.1**	**6.6**	**20.1**	**0.9**	**97.3**
Net book value at 31 December 2015	41.7	4.6	7.8	10.0	0.8	64.9

* During 2015 our Entropy business was restructured and two of the modules of the software were frozen and will not be commercialized in the foreseeable future. As a result the net book value of these asset modules of £0.8m was impaired. In addition, a further £0.1m of Entropy goodwill was impaired so that the overall value of the Entropy CGU in the Group accounts at the end of 2015 equated to the net present value of future cash flows expected from the Entropy business.

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. Impairment losses on intangible assets are included in the exceptional operating costs in the income statement.

Capital commitments in respect of computer software
Capital expenditure of £1.3m (2015: £0.3m) has been contracted for but not provided in the financial statements.

14. Intangible assets continued

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
2016	**18.1**	**28.7**	**13.5**	**5.3**	**65.6**
2015	7.2	17.0	12.2	5.3	41.7

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 -0.56% and 8.89% (2015: -0.48% and 9.53%). Applying a zero growth rate on the cash flows beyond the three-year period would result in an impairment on the Group's CGUs of £1.0m (2015: £1.0m).

Discount rates applied to the cash flow forecasts are pre-tax, derived using the capital asset pricing model and vary from 8.1% to 13.8% (2015: 6.1% to 15.2%) across the CGUs. The pre-tax discount rates would need to increase by more than 1.6% (2015: 0.0%) 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 1.7% (2015: 0.1%).

15. Business combinations – Acquisitions

i. Acquisition of Espion Group ('Espion')

On 31 March 2016, the Group acquired 100% of the share capital of Espion Limited, a company incorporated in the Republic of Ireland, and its wholly owned subsidiary Espion (UK) Limited, a company incorporated in England, for a cash consideration of EUR 8.3m (£6.6m), adjusted for working capital and closing cash commitments amounting to EUR 0.1m (£0.1m).

Espion is the leading provider of cyber and information security advice, penetration testing and forensics services in the Republic of Ireland. Its team of cyber security professionals provides a comprehensive range of consultancy, technology, research and training solutions to clients on the identification, protection, compliance and management of their information. It is an award-winning company with a strong culture of innovation.

This acquisition supports BSI's global growth strategy for Professional Services and the focus on expanding the Group's global Information Resilience offering. Information Resilience is one of the Group's three core Organizational Resilience domains and acquiring Espion brings BSI additional technical expertise and thought leadership in the areas of information governance, cloud security, risk and compliance, R&D, forensics and eDiscovery.

ii. Acquisition of Atrium Environmental Health and Safety Services, LLC ('Atrium')

On 8 August 2016, the Group acquired 100% of the share capital of Atrium, which is based in Reston, Virginia, in the US, for a cash consideration of USD 1.7m (£1.4m). Goodwill recognized arising from the acquisition was £0.8m, based on a valuation method adopted in a similar historical acquisition.

Atrium provides a full range of on-site and project-based occupational safety, industrial hygiene and environmental compliance services to clients in the pharmaceutical, facilities management, government and shipbuilding sectors in the US National Capital region (Virginia, Maryland and Washington DC).

iii. Acquisition of Creative Environmental Solutions Corporation (CES)

On 16 September 2016, the Group acquired 100% of the share capital of CES, which is based in New York City, New York, in the US, for a cash consideration of USD 12.9m (£9.9m).

CES is one of New York City's most respected and renowned environmental and safety consulting firms. With over 100 employees, CES brings to BSI a full range of environmental and safety services in the North East of the US, including environmental consulting, building code compliance, building safety inspections, environmental sampling and analysis, site safety services, as well as training in EHS compliance and certification.

iv. Acquisition of Info-Assure Limited ('Info-Assure')

On 1 October 2016, the Group acquired 100% of the share capital of Info-Assure, a company incorporated in England, for a cash consideration of £9.7m.

Info-Assure is a leading provider of cyber security and information assurance to clients in the government, defence, policing, banking, retail and energy sectors. Its team of information experts operate across the UK, the US and Brussels. One of only eleven companies worldwide accredited by CESG, the information security arm of GCHQ, it delivers commercial and government penetration testing services for both network and individual devices.

v. Acquisition of Quantum Management Group, Inc. (QMG)

On 30 November 2016, the Group acquired 100% of the share capital of QMG, which is based in New Jersey, in the US, for a cash consideration of USD 3.2m (£2.6m). Goodwill recognized arising from the acquisition was £1.5m, based on a valuation method adopted in a similar historical acquisition.

QMG's team of environmental health specialists based in the North East of the US, advise on environmental health strategy and implementation plans, taking a premium and highly valued approach to its clients which it describes as an 'owner's perspective'. It has a very strong customer base of large blue-chip multinational clients primarily in the pharmaceutical and oil and gas sectors.

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

	Espion £m	CES £m	Info-Assure £m	Other* £m	Total £m
Cash, representing total consideration transferred	**6.6**	**9.9**	**9.7**	**4.0**	**30.2**
Recognized amounts of identifiable assets acquired and liabilities assumed					
Cash and cash equivalents	0.1	0.3	0.3	0.2	0.9
Property, plant and equipment	0.2	—	0.1	0.1	0.4
Customer relationships and other acquired intangible assets (Note 14)	2.2	2.7	3.6	1.0	9.5
Inventories	0.1	—	—	—	0.1
Trade and other receivables	1.5	5.6	1.4	1.8	10.3
Trade and other payables	(1.5)	(2.6)	(0.9)	(0.5)	(5.5)
Deferred tax asset (Note 16)	—	0.2	—	—	0.2
Deferred tax liabilities (Note 16)	—	(1.5)	—	(0.5)	(2.0)
Deferred tax liabilities arising on acquired intangibles (Note 16)	(0.3)	(1.1)	(0.7)	(0.4)	(2.5)
Total identifiable net assets	**2.3**	**3.6**	**3.8**	**1.7**	**11.4**
Goodwill (included in intangibles) (Note 14)	**4.3**	**6.3**	**5.9**	**2.3**	**18.8**
Total	**6.6**	**9.9**	**9.7**	**4.0**	**30.2**

* Includes Atrium and QMG.

Goodwill of £18.8m arising from these acquisitions is attributable to future synergies expected from combining the operations of the Group and of the new acquisitions, particularly in consulting and advisory services, together with the fair value of the assembled workforce. None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of trade and other receivables is £10.3m and includes trade receivables with a fair value of £8.0m.

The following table summarizes the revenue and operating profit before exceptional costs that would have been included in the consolidated income statement, had Espion, CES and Info-Assure been consolidated from 1 January 2016.

	Espion £m	CES £m	Info-Assure £m	Total £m
Revenue	11.0	15.0	5.0	31.0
Operating profit before exceptional costs	1.4	2.4	0.3	4.1

The revenue included in the consolidated income statement since the dates of acquisition contributed by Atrium and QMG collectively was £1.1m. Atrium and QMG also collectively contributed operating profit before exceptional costs of £0.1m over the same period.

16. Deferred tax

	2016 £m	2015 £m
Deferred tax assets:		
– To be recovered after more than twelve months	**24.8**	17.6
– To be recovered within twelve months	**6.8**	5.6
Total deferred tax assets	**31.6**	23.2
Deferred tax liabilities:		
– To be incurred after more than twelve months	**(8.9)**	(5.1)
– To be incurred within twelve months	**(1.7)**	(0.9)
Total deferred tax liabilities	**(10.6)**	(6.0)
Net deferred tax assets	**21.0**	17.2

Movement on the net deferred tax account

	2016 £m	2015 £m
At 1 January	**17.2**	21.3
Acquisitions of subsidiaries	**(4.3)**	(2.5)
Income statement tax credited (Note 12)	**2.4**	3.4
Tax credited/(charged) to equity relating to retirement benefit obligations	**4.3**	(4.9)
Disposal of subsidiary	**—**	—
Exchange differences	**1.4**	(0.1)
At 31 December	**21.0**	17.2

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 2015	(3.6)	(3.6)
Acquisition of subsidiaries	(3.2)	(3.2)
Credited to the income statement	0.9	0.9
Exchange differences	(0.1)	(0.1)
At 31 December 2015	**(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)**

Deferred tax assets	Accelerated capital allowances £m	Pension £m	Losses £m	Other temporary differences £m	Total £m
At 1 January 2015	0.7	17.4	3.1	3.7	24.9
Acquisition of subsidiaries	—	—	—	0.7	0.7
Credited to the income statement	—	1.5	0.5	0.5	2.5
Charged directly to equity	—	(4.9)	—	—	(4.9)
At 31 December 2015	**0.7**	**14.0**	**3.6**	**4.9**	**23.2**
Acquisition of subsidiaries (Note 15)	**—**	**—**	**—**	**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**

16. Deferred tax continued

Gross movement on the deferred tax account continued

The deferred tax credited to equity during the year was £4.3m (2015: charge of £4.9m) 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 £0.3m (2015: £0.4m) in respect of losses amounting to £1.1m (2015: £1.2m) that can be carried forward against future taxable income.

17. Financial instruments

a. Financial instruments by category

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**

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**

At 31 December 2015	Loans and receivables £m
Assets as per balance sheet	
Trade and other receivables excluding prepayments and accrued income	59.6
Cash and cash equivalents	51.0
Total	110.6

At 31 December 2015	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	—	54.0
Derivative financial instruments	—	—
Total	—	54.0

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

	2016 £m	2015 £m
Finished goods and goods for resale	**0.1**	0.1
Total inventories	**0.1**	0.1

19. Trade and other receivables

	2016 £m	2015 £m
Trade receivables	**72.6**	52.3
Less: provision for impairment of trade receivables	**(3.1)**	(1.2)
Trade receivables – net	**69.5**	51.1
Other receivables	**7.9**	8.5
Prepayments	**7.1**	5.9
Accrued income	**21.8**	15.1
Total trade and other receivables	**106.3**	80.6
Less non-current portion:		
– Other receivables	**(4.9)**	(3.4)
Current portion of trade and other receivables	**101.4**	77.2

Trade and other receivables are non-interest bearing and are generally on 30–60 day (2015: 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 2016, trade receivables of £29.2m (2015: £21.3m) 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:

	2016 £m	2015 £m
Current (not due)	**40.3**	29.8
Overdue by:		
<1 month	**16.6**	12.5
1–3 months	**8.5**	6.7
3–5 months	**2.3**	1.1
>5 months	**1.8**	1.0
Trade receivables – net	**69.5**	51.1

As of 31 December 2016, trade receivables of £3.1m (2015: £1.2m) 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:

	2016 £m	2015 £m
Overdue by:		
<1 month	**0.2**	0.1
1–3 months	**0.2**	0.1
3–5 months	**0.6**	0.2
>5 months	**2.1**	0.8
Provision for impairment of trade receivables	**3.1**	1.2

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

	2016 £m	2015 £m
British Pounds Sterling	**28.9**	27.1
US Dollars	**38.2**	22.5
Euros	**11.6**	7.8
Chinese Renminbi	**4.6**	3.5
Japanese Yen	**3.7**	2.8
Australian Dollars	**3.6**	4.0
Other currencies	**15.7**	12.9
Total trade and other receivables	**106.3**	80.6

19. Trade and other receivables continued

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

	2016 £m	2015 £m
At 1 January	**1.2**	1.2
Provision relating to acquired subsidiaries	**0.7**	—
Provision for impaired receivables	**1.6**	0.5
Receivables written off during the year as uncollectable	**(0.1)**	(0.3)
Unused amounts reversed	**(0.5)**	(0.2)
Exchange	**0.2**	—
At 31 December	**3.1**	1.2

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

	2016 £m	2015 £m
Current assets		
Forward foreign exchange contracts	**—**	—
Current liabilities		
Forward foreign exchange contracts	**0.1**	—

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2016 were £29.7m (2015: £20.5m).

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 (2015: 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. Cash and cash equivalents

	2016 £m	2015 £m
Cash at bank and in hand	**45.1**	35.9
Short-term deposits	**3.0**	15.1
Total cash and cash equivalents	**48.1**	51.0

No bank overdraft facilities were in use at 31 December 2016 (2015: £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 £48.1m (2015: £51.0m). The maximum exposure to credit risk at the reporting date is the fair value of cash and short-term deposits mentioned above.

21. Cash and cash equivalents continued

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

	2016				2015			
	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	**0.2**	**0.6**	**27.0**	**27.8**	15.1	0.7	21.9	37.7
US Dollars	**2.0**	**0.1**	**2.8**	**4.9**	—	1.5	1.4	2.9
Euros	**0.2**	**—**	**1.9**	**2.1**	—	—	1.0	1.0
Chinese Renminbi	**—**	**5.4**	**—**	**5.4**	—	2.8	—	2.8
Japanese Yen	**0.3**	**—**	**0.2**	**0.5**	0.5	—	0.5	1.0
Australian Dollars	**2.2**	**1.1**	**—**	**3.3**	—	1.7	—	1.7
Other currencies	**0.5**	**0.8**	**2.8**	**4.1**	0.3	0.9	2.7	3.9
Total	**5.4**	**8.0**	**34.7**	**48.1**	15.9	7.6	27.5	51.0

22. Trade and other payables

	2016 £m	2015 £m
Trade payables	**9.0**	7.1
VAT and sales taxes	**3.3**	3.7
Other taxes and social security	**4.0**	3.3
Other payables	**14.1**	7.6
Accruals	**44.2**	32.3
Deferred income	**28.8**	25.0
Total trade and other payables	**103.4**	79.0
Less non-current portion:		
– Trade and other payables	**(8.4)**	(5.8)
– Deferred income	**(0.4)**	(0.7)
– Accruals	**(0.2)**	(0.2)
Current portion of trade and other payables	**94.4**	72.3

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

	2016 £m	2015 £m
British Pounds Sterling	**46.6**	42.0
US Dollars	**25.8**	15.2
Euros	**7.6**	5.0
Chinese Renminbi	**4.8**	3.0
Japanese Yen	**3.6**	3.1
Australian Dollars	**3.4**	2.8
Other currencies	**11.6**	7.9
Total trade and other payables	**103.4**	79.0

Trade payables are non-interest bearing and are generally on 30–60 day (2015: 30–60 day) terms. Other payables are non-interest bearing and are generally on 30–90 day (2015: 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 2015	0.9	0.3	1.2
Charged to the income statement	0.3	0.2	0.5
At 31 December 2015	**1.2**	**0.5**	**1.7**
Charged to the income statement	**0.1**	**0.7**	**0.8**
Unused amount reversed during 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**

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:

	2016 £m	2015 £m
Non-current	**1.6**	1.4
Current	**0.7**	0.3
Total provisions for liabilities and charges	**2.3**	1.7

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

Following the closure of the defined benefit final salary scheme to new entrants, the Group offers a group personal pension plan to all new UK employees. The costs for the year were £6.6m (2015: £6.4m).

In addition, a number of other money purchase schemes are operated in overseas companies, with costs for the year totalling £3.4m (2015: £2.7m).

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 £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 2013. This revealed an ongoing funding level of 74%. The Group subsequently agreed a schedule of contributions with the Trustees which was put in place from 1 April 2014. 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 £86.0m over the period from 1 April 2014 to 31 March 2021. Contributions in respect of future service benefits ceased on 30 April 2010. A further valuation of the Plan as at 31 March 2016 is underway and a schedule of revised additional contributions to the Plan is yet to be agreed with the Trustee.

The Group paid a total of £12.5m in additional contributions to the Plan during 2016 (2015: £12.5m).

24. Retirement benefit obligations continued
b. Defined benefit schemes continued
i. UK defined benefit plan continued
Balance sheet
The amounts recognized in the balance sheet are determined as follows:

	2016 £m	2015 £m
Present value of defined benefit obligations	**439.3**	378.0
Fair value of plan assets	**(335.2)**	(307.1)
Total deficit – UK defined benefit pension plan	**104.1**	70.9
Impact of minimum funding requirement/asset ceiling	**—**	—
Net liability in the balance sheet	**104.1**	70.9

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 2015	385.0	(303.0)	82.0
Administration expenses	—	0.5	0.5
Interest expense/(income) (Note 8, Note 11)	13.6	(11.0)	2.6
	398.6	(313.5)	85.1
Re-measurements:			
– Return on plan assets, excluding amounts included in interest expense	—	6.4	6.4
– Loss from change in demographic assumptions	1.2	—	1.2
– Gain from change in financial assumptions	(9.3)	—	(9.3)
	(8.1)	6.4	(1.7)
Contributions:			
– Employers	—	(12.5)	(12.5)
Payments from plans:			
– Disbursements	(12.5)	12.5	—
	(12.5)	—	(12.5)
At 31 December 2015	**378.0**	**(307.1)**	**70.9**
Administration expenses	**—**	**0.5**	**0.5**
Interest expense/(income) (Note 8, Note 11)	**14.1**	**(11.8)**	**2.3**
	392.1	**(318.4)**	**73.7**
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**

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:

	2016 % p.a.	2015 % p.a.
Rate of increase in salaries	**4.30**	4.15
Rate of revaluation in deferment	**2.30**	2.15
Pension increase rate:		
– RPI (min. 3%, max. 5%)	**3.70**	3.65
– CPI (min. 3%, max. 5%)	**3.20**	3.20
Discount rate	**2.60**	3.80
Inflation assumption – RPI	**3.30**	3.15
Inflation assumption – CPI	**2.30**	2.15

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 26.0 (2015: 25.7) years (men) or 26.9 (2015: 27.0) years (women). Life expectancy for a member currently aged 65 is 23.8 (2015: 23.5) years (men) or 25.0 (2015: 25.1) 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 2016		Value at 31 December 2015	
	£m		£m	
Schroder Diversified Growth Fund	**79.6**	**24%**	72.9	24%
Standard Life Global Absolute Return Strategies Fund	**62.1**	**18%**	58.5	19%
Bonds	**–**	**0%**	82.5	27%
Schroder Corporate Bond Fund	**47.3**	**14%**	–	0%
M&G European Loan Fund	**35.8**	**11%**	–	0%
Alcentra Credit Fund	**9.4**	**3%**	–	0%
Cash	**1.6**	**0%**	2.2	1%
MetLife Annuity Policy	**99.4**	**30%**	91.0	29%
Total fair value of plan assets	**335.2**	**100%**	307.1	100%

Expected contributions to retirement benefit plans for the year ending 31 December 2017 are £10.5m (2016: £12.5m).

The weighted average duration of the defined benefit obligation is 18 years (2015: 18 years).

ii. Other defined benefit schemes

The Group operates defined benefit pension schemes in Taiwan and Germany which provide benefits based on final pensionable salary and service. The net liability recognized in the balance sheet at 31 December 2016 is £1.3m (2015: £1.0m).

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

	2016 £m	2015 £m
(Loss)/gain on re-measurement of defined benefit plan net liability		
– UK	**(42.9)**	1.7
– Overseas	**(0.3)**	(0.1)
	(43.2)	1.6
Tax on re-measurement of defined benefit plan net liability		
– Deferred tax credit/(charge)	**5.3**	(2.6)
– Current tax credit	**2.2**	2.2
Re-measurement of post-employment benefit obligations, net of taxes	**(35.7)**	1.2

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 54 to 63. Emoluments paid to other members of the Executive Committee for employee services are shown in the table below:

	2016 £m	2015 £m
Salaries and short-term benefits	**3.5**	3.5
Other long-term benefits	**0.8**	0.9
Total emoluments	**4.3**	4.4

27. Interests in Group undertakings

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
Atrium Environmental Health and Safety Services, LLC (acquired 8 August 2016)	11495 Sunset Hills Road, Reston, VA 20190, United States	USA	100%	Business services
British Standards Institution Group Iberia S.A.U.	Calle Juan Esplandiu, 15 3a plta, 28007, Madrid, Spain	Spain	100%	Business services
British Standards Institution Group Middle East WLC	4605 Palm Tower B, West Bay, Doha, PO BOX 27774, Qatar	Qatar	49%	Business services
BSI America Professional Services Inc.	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 Group (Thailand) Co., Ltd	127/25 Panjathani Tower, 20th Floor Nonsee Road, Chongnonsee, Yannawa, Bangkok, 10120, Thailand	Thailand	100%	Business services
BSI Group America Inc.	2711 Centerville Road, Suite 400, Wilmington, New Castle DE, United States	USA	100%	Business services

27. Interests in Group undertakings continued

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
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	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	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	8F, Taehwa bldg. 29 Insa-dong 5-gil, Jongno-gu, Seoul, 03161, South Korea	South Korea	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 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	No.1 Robinson Road, #15-01 AIA Tower, Singapore, 048542, Singapore	Singapore	100%	Business services
BSI Group South Africa (Pty) Limited	De Haviland Crescent Nr. 5, III Villaggio Nr.12, Persequor, Pretoria, South Africa	South Africa	100%	Business services
BSI Group The Netherlands BV	Thomas R Malthusstraat 3c, 1066 JR Amsterdam, Netherlands	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 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

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 Malaysia Sdn Bhd	Unit 10-03, Level 10, Tower A, The Vertical Business Suites, Bangsar South, No. 8, Jalan Kerinchi, 59200, Kuala Lumpar, 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., Limited	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 (acquired 16 September 2016)	39 West 37th Street, 14th Floor, New York, NY 10018, United States	USA	100%	Business services
Espion (UK) Limited (acquired 31 March 2016)	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
Espion Limited (acquired 31 March 2016)	Corrig Court, Corrig Road, Sandyford Industrial Estate, Dublin, D18C6K1, Ireland	Ireland	100%	Business services
Info-Assure Limited (acquired 1 October 2016)	389 Chiswick High Road, London W4 4AL, England	England	100%	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
Quantum Management Group, Inc. (acquired 30 November 2016)	1187 Main Avenue, Suite 2B, Clifton, NJ 07011, United States	USA	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 parent company financial statements

Our 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 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements 2016 (the 'Annual Report'), comprise:

- the Parent company balance sheet as at 31 December 2016;
- the Parent company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

The Directors have chosen to voluntarily comply with the UK Corporate Governance Code (the 'Code') as if the parent company were a premium listed company. Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the parent company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 49, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with paragraph 21 of The British Standards Institution's Royal Charter and Bye-laws and applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the 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.

Responsibilities for the financial statements and the audit continued

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Group financial statements of The British Standards Institution for the year ended 31 December 2016.

John Minards (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 March 2017

Parent company balance sheet

as at 31 December 2016

	Note	2016 £m	2015 £m
Fixed assets			
Intangible assets	4	**5.6**	7.1
Tangible assets	5	**7.3**	2.5
Investment property	6	**4.7**	3.4
Investment in subsidiaries	7	**39.9**	39.9
		57.5	52.9
Current assets			
Debtors (including £17.6m (2015: £11.7m) due after one year)	8	**169.0**	128.0
Cash at bank and in hand		**29.5**	37.9
		198.5	165.9
Creditors – amounts falling due within one year	9	**(122.8)**	(106.8)
Net current assets		**75.7**	59.1
Total assets less current liabilities		**133.2**	112.0
Defined pension scheme liability	12	**(104.1)**	(70.9)
Provision for liabilities	10	**(0.3)**	(0.3)
Net assets		**28.8**	40.8
Reserves			
Non-distributable reserves		**3.6**	2.5
Retained earnings		**25.2**	38.3
Total equity		**28.8**	40.8

The accompanying notes on pages 113 to 124 form an integral part of the parent company financial statements.

The financial statements on pages 111 to 112 were approved by the Board of Directors on 23 March 2017 and were signed on its behalf by:

Craig Smith FCCA
Group Finance Director
23 March 2017

Parent company statement of changes in equity

for the year ended 31 December 2016

	Retained earnings £m	Non-distributable reserves £m	Total £m
At 1 January 2015	26.6	1.9	28.5
Profit for the year	12.7	0.6	13.3
Movement in actuarial valuation of defined benefit pension scheme, net of taxes	(1.0)	—	(1.0)
At 31 December 2015	**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**

Retained earnings

Retained earnings represent accumulated comprehensive income for the year and prior periods.

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 £0.7m (2015: £0.6m). 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 2016

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

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

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. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities.

m. Investment in Group undertakings

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

n. Intangible assets

Computer software

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

2. Principal accounting policies continued

n. Intangible assets continued

Computer software continued

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

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

o. Tangible fixed assets

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

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

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Short leasehold improvements	Over the unexpired term of the lease
Plant, machinery and office equipment	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).

p. Investment property

Investment properties are measured initially at cost, including purchase price and any directly attributable expenditure. Investment properties are measured at fair value at each reporting date. Gains or losses arising from changes in the fair value of the investment property are non-distributable and are recognized in the profit or loss.

Transfers are made to or from investment property to or from other categories of tangible fixed assets only when there is a change in use of the property.

q. Provisions for liabilities and charges

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a finance cost.

2. Principal accounting policies continued

r. Contingent liabilities

Contingent liabilities, arising as a result of past events, are not recognized when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date, or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

s. Employee benefits

i. Defined benefit pension schemes

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

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

The valuation of the Company's net obligation is performed by an independent qualified actuary as determined by the Trustees. Pension scheme assets are measured using market values for quoted assets. The MetLife Annuity Policy asset is valued at an actuarial estimate using the assumptions shown in Note 12. 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, based on conditions prevailing at the start of the year.

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

ii. Defined contribution pension schemes

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

t. Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been substantively enacted by the period end.

Management periodically evaluates the position taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes a provision where appropriate on the basis of amounts expected to be paid to the authorities.

u. Deferred taxation

Deferred tax arises from timing differences between the inclusion of income and expenses in tax assessments in periods different from those in which they are recognized in the financial statements.

Deferred tax is recognized on all timing differences at the reporting date with some exceptions. Unrelieved tax losses and other deferred tax assets are only recognized when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profit.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

v. Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same Group. It does not disclose transactions with members of the same Group that are wholly owned.

3. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

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

a. Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilization and the physical condition of the assets. See Note 5 for the carrying amount of property, plant and equipment and Note 2 for the depreciation rates applied for each asset class.

3. Critical accounting judgements and estimation uncertainty continued

Critical accounting estimates and assumptions continued

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 12.

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 2016		
	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	**0.25% p.a.**	**(16.5)**	**17.3**
Inflation rate*	**0.25% p.a.**	**7.5**	**(4.4)**
Salary escalation	**0.25%**	**1.3**	
Life expectancy	**Approximately 1 year**	**12.7**	

* 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 2015	18.4
Additions	1.1
Disposals	(1.2)
Reclassification to tangible assets (Note 5)	(1.6)
At 31 December 2015	**16.7**
Additions	**1.1**
At 31 December 2016	**17.8**
Accumulated amortization and impairment	
At 1 January 2015	(8.4)
Charge in the year	(2.8)
Disposals	1.0
Reclassifications to tangible assets (Note 5)	0.6
At 31 December 2015	**(9.6)**
Charge in the year	**(2.6)**
At 31 December 2016	**(12.2)**
Net book value at 31 December 2016	**5.6**
Net book value at 31 December 2015	7.1

5. Tangible assets

	Short leasehold improvements £m	Asset under construction £m	Plant, machinery and office equipment £m	Total £m
Cost				
At 1 January 2015	2.6	0.1	1.5	4.2
Additions	—	0.8	1.1	1.9
Disposals	—	—	(0.6)	(0.6)
Reclassification from intangible assets (Note 4)	—	(0.4)	2.0	1.6
At 31 December 2015	**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**
Accumulated depreciation and impairment				
At 1 January 2015	(2.4)	—	(1.1)	(3.5)
Charge in the year	(0.1)	—	(0.7)	(0.8)
Disposals	—	—	0.3	0.3
Reclassification from intangible assets (Note 4)	—	—	(0.6)	(0.6)
At 31 December 2015	**(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)**
Net book value at 31 December 2016	**3.6**	**0.8**	**2.9**	**7.3**
Net book value at 31 December 2015	0.1	0.5	1.9	2.5

6. Investment property

	2016 £m	2015 £m
Balance at 1 January	**3.4**	2.7
Fair value gains on valuation	**1.3**	0.7
Balance at 31 December	**4.7**	3.4

The estimated fair value of the Company's investment property is £4.7m (2015: £3.4m) 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 valuer.

7. Investment in subsidiaries

	2016 £m	2015 £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.

8. Debtors

	2016 £m	2015 £m
Trade debtors	**1.1**	0.5
Amounts owed by subsidiaries	**139.8**	107.1
Corporation tax receivable	**2.2**	1.5
Other debtors	**—**	0.3
VAT receivable	**1.3**	0.3
Prepayments and accrued income	**5.2**	4.0
Deferred taxation (Note 11)	**19.4**	14.3
Total debtors	**169.0**	128.0

Amounts owed by subsidiaries include trade and finance amounts. The unsecured finance amounts of £59.7m (2015: £46.8m) 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% (2015: 2.0% and 8.8%).

Deferred taxation includes £17.5m (2015: £11.7m) to be recovered after more than one year.

9. Creditors: amounts falling due within one year

	2016 £m	2015 £m
Trade creditors	**2.3**	1.1
Amounts owed to subsidiaries	**102.3**	90.5
Social security and PAYE	**0.5**	0.4
Other creditors	**0.3**	0.2
Accruals	**9.7**	8.7
Deferred income	**7.6**	5.9
Derivative financial instruments	**0.1**	—
Creditors falling due within one year	**122.8**	106.8

Trade creditors are non-interest bearing and are generally on 30–60 day terms. Amounts owed to subsidiaries include trade and finance amounts. The unsecured finance amounts of £6.8m (2015: £4.2m) have no fixed terms of repayment and are repayable on demand, but are interest bearing with rates ranging between 3.0% and 5.4% (2015: 3.0% and 5.4%).

10. Provisions for liabilities

	Property provisions £m	Other provisions £m	Total £m
At 1 January 2016	**0.3**	**—**	**0.3**
(Released)/charged to the profit and loss account	**(0.2)**	**0.2**	**—**
At 31 December 2016	**0.1**	**0.2**	**0.3**

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.

Details of the pension provisions are set out in Note 12.

11. Deferred taxation

	2016 £m	2015 £m
Deferred tax assets:		
– To be recovered after more than twelve months	**18.2**	12.3
– To be recovered within twelve months	**1.9**	2.6
Total deferred tax assets	**20.1**	14.9
Deferred tax liabilities:		
– To be recovered after more than twelve months	**(0.7)**	(0.6)
Total deferred tax liabilities	**(0.7)**	(0.6)
Total net deferred tax assets	**19.4**	14.3

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 2016	**0.3**	**—**	**14.0**	**14.3**
Credited/(debited) to profit and loss account	**0.2**	**(0.1)**	**0.7**	**0.8**
Credited to current year reserves	**—**	**—**	**4.3**	**4.3**
At 31 December 2016	**0.5**	**(0.1)**	**19.0**	**19.4**

12. 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 £1.2m (2015: £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 2013. This revealed an ongoing funding level of 74%. The Company subsequently agreed a schedule of contributions with the Trustees which was put in place from 1 April 2014. It requires contributions from the Company to improve the funding level of the Plan and to cover the expenses of running the Plan. The Company agreed to pay additional contributions of £86.0m over the period 1 April 2014 to 31 March 2021. Contributions in respect of future service benefits ceased on 30 April 2010. A further valuation of the Plan as at 31 March 2016 is underway and a schedule of revised additional contributions to the Plan is yet to be agreed with the Trustee.

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 £12.5m in contributions to the fund during the year (2015: £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.

12. Pension obligations continued

Balance sheet

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

	2016 £m	2015 £m
Present value of defined benefit obligations	**439.3**	378.0
Fair value of plan assets	**(335.2)**	(307.1)
Total deficit – UK defined benefit pension plan	**104.1**	70.9
Impact of minimum funding requirement/asset ceiling	**—**	—
Net liability in the balance sheet	**104.1**	70.9

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 2015	385.0	(303.0)	82.0
Administration expenses	—	0.5	0.5
Interest expense/(income)	13.6	(11.0)	2.6
	398.6	(313.5)	85.1
Re-measurements:			
– Return on plan assets, excluding amounts included in interest income	—	6.4	6.4
– Loss from change in demographic assumptions	1.2	—	1.2
– Gain from change in financial assumptions	(9.3)	—	(9.3)
	(8.1)	6.4	(1.7)
Contributions:			
– Employers	—	(12.5)	(12.5)
Payments from plans:			
– Disbursements	(12.5)	12.5	—
	(12.5)	—	(12.5)
At 31 December 2015	**378.0**	**(307.1)**	**70.9**
Administration expenses	**—**	**0.5**	**0.5**
Interest expense/(income)	**14.1**	**(11.8)**	**2.3**
	392.1	**(318.4)**	**73.7**
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**

12. Pension obligations continued

Balance sheet continued

The major assumptions used for the updated actuarial valuation were:

	2016 % p.a.	2015 % p.a.
Rate of general increase in salaries	**4.30**	4.15
Rate of revaluation in deferment	**2.30**	2.15
Pension increase rate:		
– RPI (min. 3%, max. 5%)	**3.70**	3.65
– CPI (min. 3%, max. 5%)	**3.20**	3.20
Discount rate	**2.60**	3.80
Inflation assumption – RPI	**3.30**	3.15
Inflation assumption – CPI	**2.30**	2.15

Life expectancy at age 65 for a member currently aged 45 is 26.0 (2015: 25.7) years (men) or 26.9 (2015: 27.0) years (women). Life expectancy for a member currently aged 65 is 23.8 (2015: 23.5) years (men) or 25.0 (2015: 25.1) years (women).

Plan assets are comprised as follows:

	Value at 31 December 2016		Value at 31 December 2015	
	£m		£m	
Schroder Diversified Growth Fund	**79.6**	**24%**	72.9	24%
Standard Life Global Absolute Return Strategies Fund	**62.1**	**18%**	58.5	19%
Bonds	**—**	**—**	82.5	27%
Schroder Corporate Bond Fund	**47.3**	**14%**	—	0%
M&G European Loan Fund	**35.8**	**11%**	—	0%
Alcentra Credit Fund	**9.4**	**3%**	—	0%
Cash	**1.6**	**0%**	2.2	1%
MetLife Annuity Policy	**99.4**	**30%**	91.0	29%
Total fair value of assets	**335.2**	**100%**	307.1	100%

Expected contributions to retirement benefit plans for the year ending 31 December 2017 are £10.5m (2016: £12.5m).

The weighted average duration of the defined benefit obligation is 18 years (2015: 18 years).

13. Financial instruments

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**

13. Financial instruments continued

At 31 December 2015	Loans and receivables £m
Assets as per balance sheet	
Debtors excluding prepayments and accrued income and deferred taxation	109.7
Cash and cash equivalents	37.9
Total	147.6

At 31 December 2015	Cash flow hedges at fair value £m	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet		
Creditors excluding non-financial liabilities	—	100.9
Derivative financial instruments	—	—
Total	—	100.9

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 2016 the outstanding contracts all mature within twelve months (2015: twelve months) of the year end. The Company is committed to buy CHF 2.4m and sell 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 (2015: none).

14. Employees

	2016 £m	2015 £m
Wages and salaries	**14.8**	13.5
Social security costs	**1.8**	1.6
Long Term Incentive Plan (LTIP) expense	**2.4**	2.0
Other pension costs	**1.2**	1.3
Total employee benefit expense	**20.2**	18.4

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

	2016 Number	2015 Number
Production, inspection and laboratory	**17**	17
Sales and distribution	**34**	32
Administration	**157**	144
Total headcount	**208**	193

Disclosures in respect of Directors' emoluments can be found in the Directors' remuneration report on pages 54 to 63.

15. 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 (2015: £0.2m).

16. Capital commitments

	2016 £m	2015 £m
Capital expenditure that has been contracted for but not provided for in the financial statements	**2.4**	—

17. Financial commitments

At 31 December 2016, annual commitments under non-cancellable operating leases were as follows:

	2016			2015		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
No later than 1 year	**1.9**	**0.1**	**2.0**	2.4	0.1	2.5
Later than 1 year and no later than 5 years	**7.2**	**0.1**	**7.3**	7.3	0.2	7.5
Later than 5 years	**6.9**	**—**	**6.9**	8.8	—	8.8
Minimum lease payments	**16.0**	**0.2**	**16.2**	18.5	0.3	18.8

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 2016, the Company held foreign exchange contracts to the value of £29.7m (2015: £20.4m), all expiring within one year. The mark-to-market value of these contracts was a liability of £0.1m (2015: £nil).

18. 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 12.

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.

19. Contingent liabilities

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

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

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

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