Inspiring trust for a more resilient world.

The British Standards Institution
Annual report and financial statements 2019

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

For more than a century we have been challenging mediocrity and complacency to help embed excellence into the way people and products work.

By Royal Charter

In this report the ‘Company’ refers to The British Standards Institution, a Royal Charter Company, Companies House number ZC000202, 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’.

Our purpose

Inspiring trust for a more resilient world.

+

Our values

Integrity | Respect | Expertise

=

Our mission

To share knowledge, innovation and best practice to help people and organizations realize their potential and make excellence a habit.

Our excellence behaviours

Client centric | Agile | Collaborative

Contents

Our business is enabling others to perform better

Our markets and opportunities

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

Knowledge

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

Revenue

£66.5m

2018: £65.2m

Read more on **page 23**

Assurance Services

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

Revenue

£283.0m

2018: £277.4m

Read more on **page 24**

Regulatory Services

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

Revenue

£119.4m

2018: £92.7m

Read more on **page 25**

Consulting Services

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

Revenue

£79.2m

2018: £76.6m

Read more on **page 26**

Our sectors

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

Healthcare

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

Food and Retail

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

Built Environment

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

Aerospace and Automotive

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

Imparting our global expertise worldwide

BSI is an integrated global enterprise, able to serve clients from 84 offices in 31 countries across the world. Our clients range from globally recognized brands to small local companies in 195 countries across a range of industries.

53%
of the Fortune 500

83%
of the FTSE 100

81%
of the Nikkei 225

84,000
clients across a wide range of industries

33,000
standards offered to the market

Over 200,000
delegates trained

Over 225,000
days certifying management systems

100%
of profit reinvested in the business

Another year of significant investment

Revenue

£548.1m

+7%

2018: £511.9m

Underlying operating profit

£58.3m

-6%

2018: £61.8m

Operating profit

£54.7m

-3%

2018: £56.5m

Cash and deposits

£85.1m

-2%

2018: £86.8m

Net asset value

£207.4m

+16%

2018: £178.3m

Average employees

5,089

+6%

2018: 4,784

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

Inspiring TRUST for a more resilient world

John Hirst, Chairman

As I reflect back over my first year as Chairman of BSI, I am pleased to report that my early impressions, of a well-run business with huge potential, proved to be correct. 2019 was the 118th year in the history of this great Institution and, once again, the business reported higher revenues than ever before.

Our substantial investment programme, in the people and fabric of the business, continued in 2019, taking profits slightly below their record 2018 levels, but ensuring a resilience that allows us to face the future with confidence and in robust financial health.

In 2019, we took the decision to review the purpose and mission of BSI to build on our great heritage in the context of the current economic, political and social climate, and to extend our strategic planning horizon from three to five years, permitting us to focus and adapt our current strategy for a longer-term horizon. We defined our purpose as 'inspiring trust for a more resilient world' and we continued to engage with all our stakeholders as this purpose involves and impacts everyone from our clients to society in general. Trust remains at the heart of everything we do at BSI and underpins our mission 'to share knowledge, innovation and best practice to help people and organizations realize their potential and make excellence a habit'.

'In 2019, we took the decision to review the purpose and mission of BSI to build on our great heritage.'

Chairman's statement continued

This purpose and mission provide the platform upon which we manage our business on a day-to-day basis. 2019 was the first full year in which we were managed along our new structural lines, based on four global business streams.

It was particularly pleasing to have this new structure vindicated by the strong financial performance, with no significant disruption created despite the considerable scale of the change. This refocused structure reflects our increasing requirement to provide our wide range of services and solutions to our clients on a global basis. Local delivery from our extensive network of offices will ensure that all clients, regardless of location or size, will continue to benefit from the high level of service we aim to deliver.

'Every year, we seek to strike a careful balance between managing our finances with proper near-term caution and making the investments required to secure our longer-term relevance.'

As I wrote last year, this reorganization came at an interesting time in our domestic market, and the negotiations to end the UK's membership of the European Union meandered throughout 2019 without dispelling the uncertainty that had gripped the market ever since the referendum in 2016. It is to be hoped that the strong mandate given to the incoming government in the December 2019 General Election will permit some sense of closure, stabilizing the UK economy and the ultimate, new, relationships between the UK and the European Union and rest of the world. Despite concerns about possible trade wars between some of the larger nations and fears early in the year that a global recession may be imminent, the global economy actually performed better than expected during 2019 and BSI benefited from strong trading across its portfolio of businesses to end the year as we started it, in good financial health. Underlying revenue increased, for the twentieth consecutive year, by 7% to £548.1m. Underlying operating profit, depressed slightly by our planned and well-executed investments in strengthening the human capital and infrastructure of our business, fell by 6% to £58.3m but remained in line with our expectations. Likewise, our cash and deposits decreased slightly, by 2% to £85.1m, but remain more than adequate to finance our strategic plan and any future acquisitions of a similar size to those concluded in recent times.

Every year, we seek to strike a careful balance between managing our finances with proper near-term caution and making the planned investments required to continue to secure our longer-term market relevance.

The strategic and operational investments we made during 2019 built on those we made in prior years to keep BSI at the forefront of standards making, such that our vital role in the global standards community is as strong as it has ever been. Those investments have also deepened our sector and domain knowledge and increased the effectiveness with which we deliver the benefits of that knowledge to our clients everywhere. In consequence, our high reputation continues to be maintained and the power of our brand continues to strengthen. Regardless of the current uncertainties around the precise nature of the UK's future relationship with the rest of the world, I am delighted to see that BSI, in our role as the UK's National Standards Body, has continued to cement its position as part of European and global standard setting and uses its expertise to remain an influential collaborator and innovator in this vital area.

The Board is conscious that the achievements of the National Standards Body and the commercial business of BSI were made possible by the sustained investments we have made for many successive years, and will continue to make, in our 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 retain the resilience to continue to meet our stakeholders' evolving needs.

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 and other stakeholders, we nevertheless apply the principles of the Code where appropriate and, in doing so, have established internal governance processes that reflect best practice in business today. The ultimate accountability for the governance of BSI lies with our widely experienced Board of Directors, which has a majority of Non-Executive Directors. The Board is supported by Audit, Remuneration, Nominations and Sustainability 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 admirable work in gathering and distilling the views of those interested in standards and providing valuable advice to the Board. Underpinning this governance framework, our structure of internal controls and, 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 work.

Since I became Chairman of BSI on 1 January 2019, I have been fortunate that the Board of Directors has remained very stable. On 1 May 2019, I was delighted to welcome Ian Lobley to the Board as Non-Executive Director. Ian is a Managing Partner at 3i Group PLC, the FTSE 100 international investor, focused on mid-market private equity and infrastructure. Our stakeholders will benefit from the knowledge he has accumulated across many sectors, as well as his global commercial experience. After nine years as a Non-Executive Director and four as Senior Independent Director, Lucinda Riches, in accordance with best practice, will not offer herself for re-election at the Annual General Meeting in May 2020. I would like to thank Lucinda for her outstanding service to BSI. The Board will miss her shrewd insights and wise counsel.

In my first year as Chairman, I have had many opportunities to work with the BSI Executive team and other employees across the business and have been privileged to visit our operations in the US, India and the Netherlands, as well as our UK businesses in Chiswick, Milton Keynes and Hemel Hempstead. I have been struck by the deep knowledge of the business shown by our team at these locations and elsewhere, and the dedication and integrity with which they go about serving our clients across the world. They, and the very many BSI Committee Members and Subscribing Members, are the heart of BSI. Without them BSI could not still be one of the most prominent and respected standards bodies in the world today. I look forward to working with them all throughout my tenure as Chairman, as we continue to build on the strong foundations and deep history of the Institution.

> 'I have been struck by the deep knowledge of the business shown by our team and the dedication and integrity with which they go about serving our clients across the world.'

As we begin our 119th year, the Board is confident that 2020 will be another year in which, together with all of our stakeholders, we can look forward to both capitalizing on our profound strength and continuing to invest in building the capacity to deliver yet more for all those who depend on BSI, all around the world, and to continue to earn the trust they place in us.

John Hirst
Chairman

27 March 2020

Q&A with the Chairman

Q: Were there any surprises in your first full year at BSI?

Only positive surprises really. I wrote last year that we have a unique business, a combination of public and national purpose, well run with great integrity by dedicated and knowledgeable people. As I have dug deeper into the business, I think the true scale of the opportunities open to BSI have become apparent to me. Deservedly, we have a great brand and are well trusted by our clients and other stakeholders. I am extremely excited to work with the Board and the employees to continue to justify that trust.

Q: Have you changed the strategy of BSI?

Our strategy is reviewed and confirmed by the Board every year. It evolves over time as the world changes and new opportunities become apparent. 2019 was no different and readers of this Annual Report will see no fundamental changes to the strategy we described last year, merely slight refocusing. In 2019 we did decide to extend our strategic planning horizon from three to five years, allowing us to take a longer-term view of our future.

Q: What are your main areas of focus in 2020?

With the strategic plan firmly in place, I, and the rest of my Board colleagues, will continue to work with Executive management on its implementation. We will review progress regularly and continue to refine it as necessary. We will support management plans to ensure that BSI remains a great place to work, where people can build their careers, free from discrimination of any kind. We will review and improve our stakeholder engagement, so that BSI retains its relevance now and into the future.

Our value proposition

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

Our inputs

Our people
A talented, diverse workforce that brings competitive advantage and differentiation from our competitors.

5,089
average employees

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

118
years in operation

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

84,000
clients worldwide

Our delivery network
Our network of 84 offices in 31 countries allows us to form a partnership with our clients, large and small, wherever they are located.

195
countries serviced

Our streams

…a specialized combination of services and solutions

Read more on **page 2**

- Knowledge
- Assurance Services
- Regulatory Services
- Consulting Services

Our sectors

…driving Organizational Resilience across your business

Read more on **page 2**

- Healthcare
- Food and Retail
- Built Environment
- Aerospace and Automotive
- All other sectors

Operational Resilience

Information Resilience

Supply Chain Resilience

Our method

We provide a unique offering, designed to align with the steps individual clients need to understand best practice, how to achieve this and how to ensure that it remains an ongoing habit.

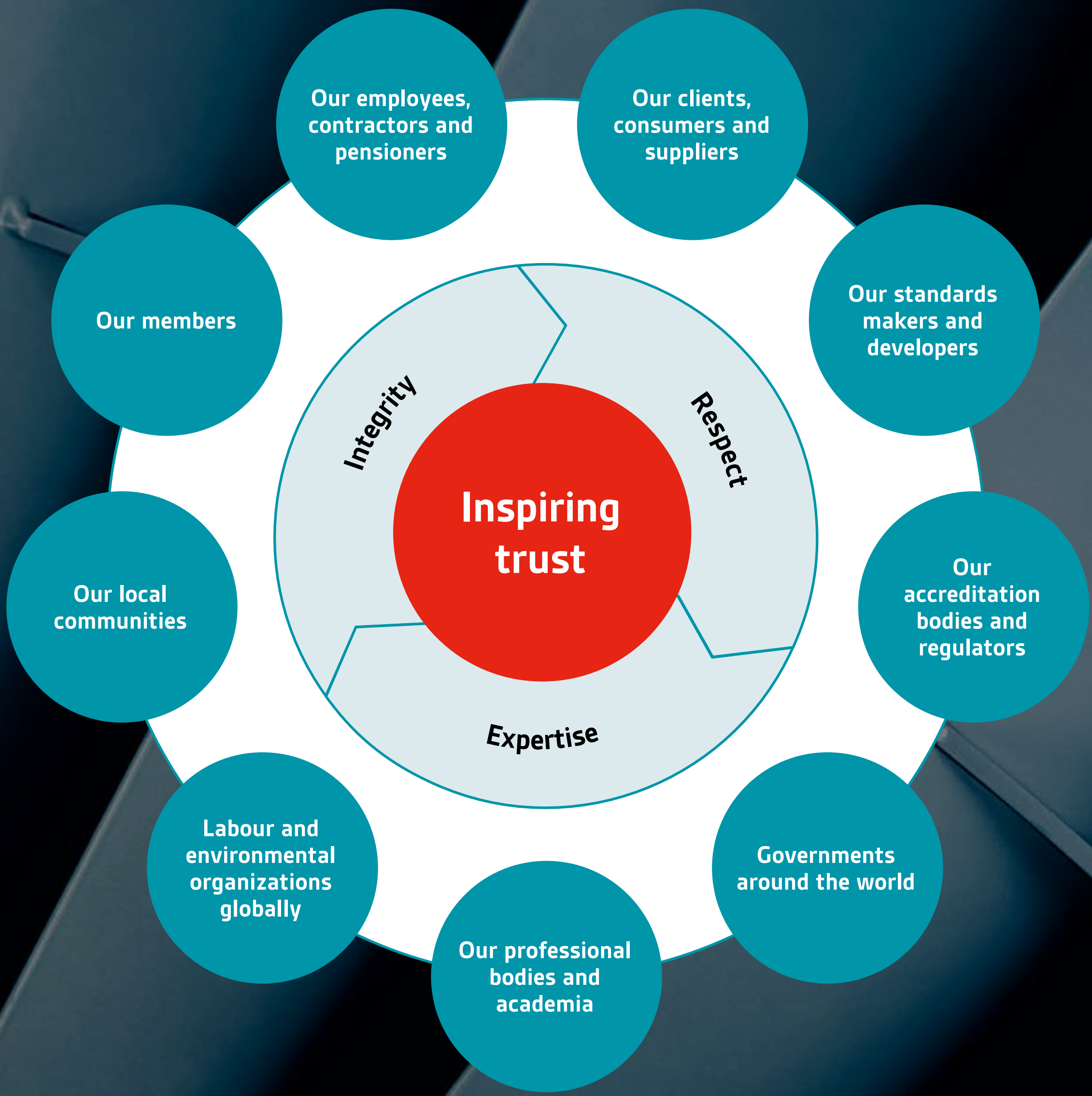
Shape

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

Share

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

Our stakeholders



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

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

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

Case study

Sustainable built environments

Inspiring trust in smart cities

Pioneering cities across Asia Pacific are striving to improve the wellbeing of their communities, while tackling rapid urbanization and resource management, by creating smarter ecosystems.

The BSI Kitemark for smart cities and communities validates a city's commitment to adopt a citizen-centric approach, helping the population thrive and making it more attractive to inward investment. Being accredited to ISO 37106 (Sustainable Cities and Communities) gives cities evidence of success in their strategic approach to manage resource better, making an urban environment more liveable, sustainable and productive.

'Organizations need to have the vision to go digital and embrace new ways of delivering and operating buildings, infrastructure and cities. The result will be a more profitable, resilient and agile industry and a more sustainable built environment.'

Andy Butterfield,
Managing Director, Global Built Environment

Our strategic vision

To be the business improvement partner of choice.

During 2019, we refocused our strategic objectives to cover a longer five-year period to the end of 2024. Our strategic vision remains the same, but the revised objectives provide new emphasis on how this will be achieved.

Our strategic objectives

Relevance

1

Be an organization of trust, providing expert, impartial opinion and service to our clients and stakeholders; addressing boardroom-relevant topics while anticipating future, global needs.

Link to KPIs

1 2 3 4 5 6

Commercial excellence

2

Deliver a world-class client experience through a partnership relationship that offers real solutions, not just services for sale.

Link to KPIs

1 2 3 4 5 6

Digital transformation

3

Build an effective digital platform that transforms our client interface through the digitalization of our content, improved data quality and more efficient processes.

Link to KPIs

1 2 3 4 5 6

Talent engagement

4

Develop a single team of talented, committed people and create an environment where they choose to make their careers with us.

Link to KPIs

1 2 3 4 5 6

Scale

5

Be the market leader in our focus markets, recognized as innovators and seen as proactive, agile and challenging by the wider world.

Link to KPIs

1 2 3 4 5 6

Find out more

Read about our KPIs on **pages 13 to 15**

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

Read about Sustainability on **pages 41 to 47**

Tracking progress

While our key performance indicators remain unchanged, new targets have been set for each in 2024 to reflect our new strategic plan.

Financial KPIs

1

Revenue[1]

£548.1m

Target for 2020: £625m

Target for 2024: £800m

Our revenue target for 2024 reflects the expected annual organic growth of the business, which remains in line with growth rates achieved in the past. Our 2020 target will not quite be met unless there are acquisitions this year to make up the small shortfall.

Achievements in 2019

Annual revenue growth was 7% in 2019, which comprised 4% organic growth, 1% inorganic growth and an increase of 2% due to changes in exchange rates. This was a lower growth rate than in previous years, due mainly to the end of the transition period for the new versions of ISO 9001 and ISO 14001 and weaknesses in our Consulting Services stream.

Future focus

Now that there is no longer the impact of the transition to skew comparatives, future focus is for each of our streams to contribute towards the required growth to hit our 2024 target. To hit the 2024 target from organic revenue alone, BSI must deliver a compound annual growth rate of just over 10%. We expect double-digit growth rates from Regulatory Services and Consulting Services to compensate for lower growth in the more mature streams.

Link to strategy

1, 2, 3, 4, 5

2

Underlying operating profit[2]

£58.3m

Target for 2020: £80m

Target for 2024: £100m

We intend our revenue growth to enhance our profitability, on the solid base created by our current investment programme. The 2020 target will not be hit, due to the level of the necessary investments in people and systems undertaken in 2018 and 2019, but these will underpin the drive towards the higher target for 2024.

Achievements in 2019

Profit growth did not match revenue growth in 2019, as material investments were undertaken during the year, aimed at strengthening our management and systems infrastructure and sales and delivery capacity. However, profit was very much in line with our expectations.

Future focus

In the past, we have undergone 'investment' periods, and then leveraged these investments to generate higher profits subsequently. The period from 2018 to 2020 is another of these periods but will ensure that the business is ready and able to drive for its challenging revenue and profit targets in 2021 and beyond, in a more resilient fashion.

Link to strategy

1, 2, 3, 4, 5

Definitions

1 Underlying revenue at actual exchange rates.

2 Underlying operating profit at actual exchange rates.

Key performance indicators continued

Client-facing KPIs

3

Net Promoter Score[3]

+58

Target for 2020: +53

Target for 2024: +53

We have achieved a high Net Promoter Score (NPS), indicating the propensity of our clients to keep working with us and to recommend others to do so. As we grow, it is important that our NPS is not impaired in the process. Continued high growth, coupled with a sustained high NPS, will constitute a healthy 2024 position.

Achievements in 2019

In 2019, our NPS improved still further from its high level in previous years, with the majority of our business streams showing increases on 2018. There are some areas where there is room for improvement and some streams where we would like to improve our response rate from clients but, generally, we are pleased with our progress.

Future focus

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

Link to strategy

1, 2, 3, 5

4

Average revenue per account[4]

£5,900

Target for 2020: £6,000

Target for 2024: £8,000

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

Achievements in 2019

We are extremely pleased to reach our 2019 ARPA, as this has almost achieved our 2020 target already. This reflects the success of our strategy to work with our key accounts across our countries and sectors so that they buy more of our services and solutions across more of their subsidiaries. The investments we have made into our focus sectors, in particular, have enabled this progress.

Future focus

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

Link to strategy

1, 2, 3, 5

Definitions

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

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

Employee-facing KPIs

5

Employee engagement index[5]

67%

Target for 2020: 70%

Target for 2024: 75%

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

Achievements in 2019

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

Future focus

We will implement the findings from our four initiatives in 2019 and continue to work closely with our people worldwide to make BSI a great place to work, in line with our business strategy. In 2020, we will undertake another employee engagement survey, work hard to ensure a high response rate again, and see if our actions have resonated with our employees when we receive the results.

Link to strategy

1, 4, 5

6

Employee retention rate[6]

85%

Target for 2020: 91%

Target for 2024: 90%

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

Achievements in 2019

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

Future focus

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

Link to strategy

1, 4, 5

Definitions

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

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

Find out more

Read about our KPIs on **pages 13 to 15**

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

Read about Sustainability on **pages 41 to 47**

Security in healthcare

Inspiring trust in medical devices

The Internet of Things provides a huge opportunity for the more flexible and efficient operation of medical devices, yet cyber security is an increasing concern, as healthcare moves into the digital age.

With the development of more complex and better-connected medical devices comes a greater need to incorporate stringent cyber security safeguards to avoid breaches that could put patient safety at risk. Through vulnerability and penetration assessments, medical device manufacturers can identify possible security risks. BSI is a market leader in CE Marking to the Medical Device Regulations (MDR). These new regulations include requirements to address cyber security and reduce the risk to patients that the digital age brings.

'Data can be extremely valuable. A cyber security attack in the Healthcare sector can be catastrophic for patients and have ramifications that go way beyond just the financial.'

Angus Metcalfe,
Managing Director, Global Healthcare

We are in the business of trust and RESILIENCE

Howard Kerr, Chief Executive

BSI has continued its growth and development into an integrated global enterprise, able to serve clients across the world with an expanding range of services and solutions.

Summary

At BSI, we try to be proactive in offering the best service possible to our clients, large and small, whichever services and solutions they buy from us and wherever they are in the world. In 2018, we completely restructured our business, recognizing a more global marketplace. We consolidated this new structure during 2019, refocusing our strategic plan to underpin this, and updating our purpose and mission so that our entire business is aligned in achieving this goal. We have been in business for more than a century and, over this time, our clients have come to trust us as their business partners. We work hard to warrant this trust, as this remains at the heart of everything we stand for in our brand and our reputation. Our new purpose statement, 'inspiring trust for a more resilient world', encapsulates this, and our continued progress in 2019 demonstrates our own resilience and our success in delivering our promises.

As in prior years, we have continued our growth and development into an integrated global enterprise, able to serve clients across the world with an expanding range of services and solutions from a growing network of offices. As I reported last year, in 2018 we moved from a geographical management structure to one managed through four global business streams. 2019 was the first full year under this new structure and it is extremely pleasing to be able to report significant revenue growth again, due to the huge efforts of my colleagues worldwide to ensure a seamless transition as far as our clients were concerned.

This structural refocus reflects the way that our clients go about managing their businesses, demanding solutions that are internationally relevant and delivered locally by our network of standards developers, auditors, tutors, technical experts, testers and consultants based in 84 offices in 31 countries but actually doing business in over 190 countries across the world. A commercial team, strengthened still further in 2019, works to match clients to our diverse portfolio of services and solutions across all industries and we have established dedicated sector management in industries where we have our strongest presence and are, or aim to be, recognized as thought leaders: Healthcare, Food and Retail and Built Environment in the first phase, to be followed by more in the future.

As our purpose statement indicates, we are in the business of 'trust' and 'resilience'. Over the past four years, we have been developing the concept of 'Organizational Resilience'. Embedding this, both internally and externally, remains the cornerstone of our strategy. When a business is resilient, it inspires the trust of its stakeholders and society as a whole benefits. We are proud to have been involved in this process for so many years and acknowledge the important role we will continue to play as the world develops and changes.

2019 was an interesting year for the world economy. We entered the year with a sense of foreboding. The final quarter of 2018 had been difficult for global stock markets. There were fears of trade wars and increased tariffs adversely affecting free trade. The Brexit process, under which the UK Government endeavoured to implement the result of the 2016 referendum to leave the European Union, had stagnated and led to continued uncertainty in the UK market. However, the global economy perhaps exceeded these gloomy predictions and produced more benign trading conditions than we had expected. After almost four years of uncertainty since the Brexit referendum, it is to be hoped that the withdrawal process will reach, at least, an initial conclusion in 2020 and everyone can concentrate their efforts on ensuring optimal trading conditions between the UK and the rest of the world.

As far as BSI is concerned, as I explained last year, we received confirmation in late 2018 that we will continue to participate actively in the European single standard system as the UK National Standards Body through continued membership of and participation in European Standards Organizations, namely the European Committee for Standardization (CEN), the European Committee for Electrotechnical Standardization (CENELEC) and the European Telecommunications Standards Institute (ETSI), which are independent of the EU. We believe that it is important that UK notified bodies, such as BSI, use their proven expertise to maintain their important conformity assessment role and ensure our clients' ongoing access to UK and European markets.

We received notification of the establishment of our new notified body in the Netherlands in 2018, confirming our ability to provide market access for our clients from inside the EU and, in 2019, achieved most of the relevant designations under EU Directives. Also, our International Projects division which has, historically, been the recipient of EU funding for much of its work, opened an office in Paris during 2018 to ensure future participation in such projects. Our objective is to provide continuity of service to our multiple stakeholders during and after the Brexit transition process.

'Embedding the concept of Organizational Resilience, both internally and externally, remains the cornerstone of our strategy.'

In trading terms, the normal fluctuations in currency, commodity and stock markets had little effect on our performance in 2019. I explained last year that the three-year transition period to the new versions of our major standards, ISO 9001 (Quality Management) and ISO 14001 (Environmental Management), ended in September 2018. This meant that, while we enjoyed nine months of this incremental business during the 2018 financial year, the same was not the case during 2019 and, hence, year-on-year comparisons are adversely affected by this one-off event. The other important impacts on our results during the year were in our Regulatory Services stream and the Californian business of our Consulting Services stream where, due to resourcing constraints, we were unable to satisfy the entire demand for our services. Significant investments have been undertaken during 2019 to rectify this.

During 2019, we have continued to develop our geographical, business stream, sector and domain footprint to ensure that we remain well hedged against external business cycles, whether global or local, sector or currency related. As we develop internationally, our natural hedging against these cycles improves and we will continue to manage this process proactively.

As a result of these influences, our revenue and profit performance in 2019 was in line with our expectations. Underlying revenue, as it has every year this century, reached record levels at £548.1m, an increase of 7% on the £511.9m reported for 2018. This increase comprised 4% organic growth, 1% from the small acquisitions completed in 2018 and 2019, and 2% due to changes in the average value of Sterling during the year against our major trading currencies. New sales orders, which will translate into revenue over time, grew by 4% at constant exchange rates.

Summary continued

Many of our sales orders translate into revenue very quickly but others, such as our Assurance Services and Consulting Services business streams, enjoy a large proportion of revenue driven by longer-term contracts with our clients.

As a Royal Charter Company with no shareholders, BSI is in a position to be able to invest its retained profits back into the business and take a longer-term view on profit growth. 2019 was another year of significant investment at BSI, as we continued our programme of investments in talent resourcing and recruitment, IT infrastructure and cloud-based software, office refurbishment, product development and marketing. These have had the expected effect of depressing profit levels below those of 2018 but will leverage higher profits in a more resilient way in the future. Underlying operating profit (UOP) was £58.3m in 2018, 6% lower than the £61.8m reported in 2018, on account of these investments. This reduction can be split into a 9% organic reduction and a 3% uplift from the first-time implementation of IFRS 16, "Leases". Acquisitions and exchange rate movements had a negligible effect. UOP margin decreased, as a result, from 12.1% in 2018 to 10.6% in 2019.

Structure

BSI is now managed through four global business streams, Knowledge, Assurance Services, Regulatory Services and Consulting Services. These are supported by a strong local network of delivery resources in 31 countries across Europe, the Middle East and Africa, the Americas and Asia Pacific. Over the past two years, we have developed a commercial structure which forms the connection between our four business streams, providing clients with the opportunity to benefit from the services and solutions provided by each of our streams. In particular, we work with key clients in our main focus sectors of Healthcare, Food and Retail and Built Environment. Each of these is now headed by a sector leader, who provides thought leadership in their sector to clients in this industry. The sector leaders also tailor the Group's offering to the requirements of the sector and provide key account management through a team of Business Development Directors and support staff. Clients are often surprised by the breadth of our service offering and are keen to broaden their business with a partner they trust. Supporting this client-facing structure are highly enabling central functions and innovative business systems in which we invest continuously.

This structure is overseen by the Group Executive, which sets and manages targets and reacts quickly and flexibly to changes in the competitive environment. I chair the Group Executive, which comprises functional directors in Finance, Human Resources and Legal, the Director of Standards, the heads of the four business streams, and the Group Commercial Director.

Investments

In 2019 we continued the investment programme started the previous year. We completed the investment in the new management structure with the appointment of the Group Commercial Director and heads of our Healthcare and Built Environment streams and underpinned these, and other senior managers, with the support structure required to manage a business that has grown from revenue of £235m in 2010 to almost £550m in 2019. We recruited unprecedented numbers of highly technical delivery staff in our Regulatory Services stream to support revenue growth of over 20% for the second consecutive year, as well as increasing client-facing sales and delivery and functional support employees elsewhere in the business.

> 'We are now managed through four global business streams supported by a strong local network of delivery resources.'

In addition to these significant investments in the recruitment and development of our people, we have continued to invest heavily in our IT systems and infrastructure, which look towards the BSI of the future while allowing us to do our business effectively today in this digital age. We manage these investments as a single Business Transformation programme which fully supports our business strategy. The major project completed in 2019 was the implementation of the first phase of our fully integrated cloud-based Workday Human Resources Management platform, which is now used by all our employees worldwide. Further phases will follow and, soon, all aspects of career development, training, recruitment, remuneration and absences will be run through this single system. This has permitted several legacy systems to be discontinued and is already demonstrating efficiencies in BSI. In addition, we instigated further projects in our Knowledge and Regulatory Services streams as we continue the transformation of our systems into an integrated cloud-based format, and made good progress in our Global Infrastructure, Digital Workplace and Cyber Security projects as we harmonize and strengthen our IT infrastructure and improve our employee experience of IT. We expect these investments to continue at this higher level for several years.

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

Two acquisitions were completed during 2019. In April, we acquired AppSec Consulting Inc., a cyber security and information resilience (CSIR) company, located in San Jose, California, US. This acquisition strengthens our CSIR services in the US, one of the key markets that are leading the development and implementation of information and cyber security best practice. AppSec Consulting's wide range of services is an excellent match to those offered by the existing BSI CSIR team in the UK and Ireland. In August, we acquired Health and Disability Auditing New Zealand Ltd. (HDANZ), a Healthcare sector auditing organization based in Christchurch, New Zealand. HDANZ is now part of our Assurance Services business, which will boost its ability to offer a wider range of auditing, compliance and improvement solutions. This acquisition is part of the expansion of our healthcare services certification business into the New Zealand market, building critical scale and supporting our ambition to become a leading provider in Healthcare, one of our focus sectors.

Support for the United Nations Sustainable Development Goals

Last year, I announced that we are a signatory to the United Nations Global Compact and are proud to support its principles. In 2019, we made a further commitment to focus on seven of the United Nations Sustainable Development Goals (SDG) where we feel we can make a real difference: SDG 3, 7, 8, 9, 11, 12 and 17. Further details appear in our Sustainability report on pages 41 to 47.

Stakeholders

Due to our position in global standards making and world business, we have a wide range of stakeholders from governments, professional bodies, consumers and academia, through our members and standards makers, to our people, clients and suppliers. These relationships are all vital to us as we go about our work to drive resilience and make excellence a habit, both internally at BSI and in the wider world. We work hard to engage with all our stakeholders and to create a balance of long-term value for each through our strategy, our actions and the way that we go about our business. An overview of how the Board has fulfilled its duty, as set out in Section 172 of the Companies Act 2006, to promote our long-term success, while considering the interests of our stakeholders and our impact on the community and environment, is explained on pages 76 to 77 of the Directors' report.

People

Our people are fundamental to the success of our business. We continue to deliver business excellence through the passion and expertise of our people and strive to make BSI a great place to work. Our philosophy remains that, if we look after our people, our people will look after our clients and each other. During the year, we have implemented the Workday Global HR system that will allow us to deliver our ambitious people strategy. For the first time, we can provide access to real-time people information across our business globally, supporting career opportunities and performance delivery. This will enable our management teams to drive the client-centric, agile and collaborative practices that support our vision.

In 2019, our business continued to grow, with significant investment onboarding new capability in all areas, but particularly in Regulatory Services and our new commercial structure. Globally, we received over 56,000 job applications during the year and recruited 1,266 new employees. As a result, we had, on average, 5,089 people working for BSI, an increase of 6% over 2018.

Our 2017 employee engagement survey reported high levels of engagement in our purpose and belief in our ability to achieve our ambitions. Four areas were highlighted where we could benefit from improvement: My Manager (leadership and career development), Wellbeing (where we started the implementation of a global employee assistance programme and continued to analyse how we can improve work-life balance), Fair Deal (remuneration) and Giving Something Back (where our staff requested that we do even more to continue to work with our local communities and the environment). The Pulse Survey we undertook in late 2019 showed that we had made progress in each of these areas. Specifically, in the Wellbeing area, we implemented a global employee assistance programme in partnership with Optum and trained more than half of our managers in dealing with mental wellbeing.

Chief Executive's review continued

People continued

We now have a consistent grading structure across all of our streams and functions, linked to global job families across our business. This, in conjunction with a new, global reward policy, has allowed us to simplify our practices and take into consideration local conditions and practices, and has led to more consistency across our business.

In line with our new excellence behaviour of agility, 2019 saw the delivery of our first, truly global, people development offering, incorporating virtual training through a learning portal, designed to move BSI towards an integrated development journey that can be accessed anywhere in the world. In addition, we have increased our involvement in Career Ready programmes, internships and apprenticeships. Our integrated succession planning process ensures that we can combine the continued development of our existing people with specific and focused recruitments to develop and retain a strong pipeline of skills to build a resilient and sustainable BSI for the future.

Above all, we aspire to be a great place to work, a business that talented people want to join and where they can grow their careers and live our core values of Integrity, Respect and Expertise, which guide us in everything we do. Our people are our most valuable asset and make BSI what it is today.

Clients

Once again, we delivered our services and solutions to an extensive client base. We worked with almost 84,000 clients in over 190 countries across the globe on every continent. During 2019, although we worked with clients of all sizes, from large multinational clients, where our revenues exceed £1m per annum, to a large number of small and medium-sized enterprises, in line with our strategy, we focused our efforts in our chosen sectors and in our key account management. In some cases where, in the past, we have considered several subsidiaries of the same company to be individual clients, we are now working with them holistically as part of our developing key accounts management programmes. These programmes allow us to offer services and solutions coherently from each of our business streams to the client from a single point of contact, ensuring that the client understands, and can benefit from, the full range available from BSI. In return, we hope to serve clients across their business, rather than to each subsidiary individually.

Interestingly, this approach has meant that we actually worked with a similar number of clients in 2019 as in 2018. However, there was an increase in our average revenue per account (ARPA), which grew by 4% from £5,700 in 2018 to £5,900 in 2019. ARPA is an increasingly important key performance indicator for us as it indicates the success of our strategy to work more globally with key accounts. We set our target ARPA for 2020 as £6,000 and only need to grow by 2% this year to hit this target, which we should achieve if current trends continue.

The combined effect of these two parameters, along with exchange gains and the impact of our acquisitions, has resulted in the growth of revenue during the year of 7%.

Of course, the growth in revenue needs to be complemented by client satisfaction and, again, our clients have told us that, generally, they are very satisfied with BSI and that they benefit from working with us. In 2019, 65% of respondents to our question about how likely they would be to recommend our services and solutions scored us nine or ten out of ten, and only 7% scored us between zero and six out of ten. This gives us a Net Promoter Score (NPS) of +58. This is an increase of 2 points even on the high level we achieved in 2018. We must not be complacent with this success. We are fully aware that our scores differ by business stream, and that a change in the mix of respondents between business streams could result in an adverse movement in the NPS from year to year. We listen to our clients constantly and do whatever we can to ensure that they treat BSI as their business partner of choice, for more and more of their Knowledge, Assurance Services, Regulatory Services and Consulting Services requirements.

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

Outlook

We delivered record revenue in 2019, and profits only below 2018 due to the planned increased level of investments in people and infrastructure. Our strategy of developing our business globally, by business stream, and focusing on our key sectors, provides a strong natural hedge against most economic, political and social issues that can create uncertainty in a global trading environment. Currently, we are faced with the coronavirus pandemic. There is no doubt that this will adversely impact our 2020 results, but it is too early to quantify this. Our strong financial position at the end of 2019 provides a good base from which to withstand the crisis, and we are continuously monitoring the situation, taking appropriate decisions to minimize its impact on our people and our business as it develops. We hope to return to normal trading conditions as soon as possible so that we can continue to implement our strategy, maximize our opportunities and drive BSI to further success.

Howard Kerr
Chief Executive

27 March 2020

Knowledge

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

Revenue
£66.5m
2018: £65.2m

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

Proportion of total revenue
12%
2018: 13%

Our Knowledge business stream operates in a stable but evolving market, and delivered revenue growth, at constant exchange rates, of 2% in 2019. This was lower than in recent years, particularly due to the cyclical nature of some parts of the business and the large, contractual, nature of others, although this was mitigated in other areas, particularly in subscriptions for our suite of standards. During the year, we continued to implement our strategy of providing smart content, knowledge and services to support our clients whenever their requirements for standards and compliance related information arose.

During 2019 we restructured the management of the stream, refocusing the business to underpin Group strategy and service better our client base. We completed the reorganization of our Knowledge Services team to focus better on client-led services and solutions. This has allowed us to expand and build our capability to offer new solutions to our clients to deliver insight, research, standards strategies, sponsored standards and the new capability of standards consultancy. In addition, we modernized our standards development environment, creating a deeper understanding of our focus sectors. We enhanced the organizational model and working practices and have launched an initiative that will improve the IT systems and workflows that support our standards development consensus process. To deepen still further our understanding of and engagement with our key sectors, we have established a new, sector-specific team to concentrate on in-depth engagement and knowledge acquisition and to develop strategies that support these sectors, as well as Energy and ICT, as they look to respond to innovation, sustainability challenges and rapidly changing political and social situations.

Document revenue declined by 10% in 2019. Annual revenues here are influenced by the multi-year publishing cycles of our higher selling standards. This anticipated decline in revenue resulting from the 2015 revisions of ISO 9001 (Quality Management) and ISO 14001 (Environmental Management) and the transition in 2018 of OHSAS 18001 into ISO 45001 (Occupational Health and Safety Management) continued. We expect the downward trend for these publications to continue next year. Fortunately, this decrease was mitigated by strong growth in our subscription revenue, driven largely by our two main subscription products. Our flagship British Standards Online (BSOL) product continued to deliver strong revenue growth from new business, as well as maintaining its market-leading renewal rates. Compliance Navigator, our compliance tool for the Medical Devices industry, also delivered significant revenue growth. Additional content and functionality maintained the strong US growth as well as delivering expansion into new territories. Our third-party distributor partners maintained their increasing contribution to our performance, remaining a key channel to broaden our geographical access to our client base.

Our Knowledge Services revenue remained in line with that of 2018 despite a number of multi-year contracts coming to the end of their term. Our Standards Development Services business delivered another record year of revenue, growing by 63%, albeit from a small base, and is now becoming a business of scale that contributes well to the total stream. Our International Projects consultancy business faced significant challenges securing new business from its traditional funding source of the European Union, due to uncertainty over the future role of the UK in Europe, with revenues down 18% on 2018. This has reinforced the value of our successful strategy to diversify and develop relationships with a broader base of funding bodies, which has started to compensate in 2019. Late in the year, we won major strategic contracts in both China and India, which have put us in a strong position to deliver good revenue growth in 2020.

We increased our portfolio of programmes with the UK Government to enable market innovation and support the move to a low carbon economy. These new programmes will support progress towards a number of the United Nations Sustainable Development Goals (SDGs), particularly in the areas of climate action, affordable and clean energy and sustainable cities and communities. We remain very aware of our unique position, which permits us to support and contribute to such important initiatives as these. We will leverage this position, and the trust that our clients, and society in general, place on us, as we look forward to another challenging and successful year of growth in 2020.

Shirley Bailey-Wood
Director, Information Solutions

Assurance Services

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

Revenue	Growth	Proportion of total revenue
£283.0m	2%	52%
2018: £277.4m	(+1% at constant exchange rates)	2018: 54%

2019 was the first full year in which the new global stream organization has been in place, now serving clients in over 190 countries through five regional management teams. The new organization showed immediate success, in line with our strategy, as we won business with new and existing global key accounts while continuing to provide good service for our smaller, more local, clients. The assurance market as a whole experienced a slowdown in 2019, although we maintained positive growth. Along with our competitors between 2016 and 2018, we had benefited from incremental one-off revenue arising from transition to the new versions of our two most important standards, ISO 9001 (Quality Management) and its various sector derivatives and ISO 14001 (Environmental Management). 2019 comparatives are adversely affected by this. We expect growth to return to more traditional levels in 2020.

Systems Certification

Our Systems Certification business declined by 1% in 2019 at constant exchange rates, due to comparison with a very strong 2018 boosted by the transition mentioned above. However, we undertook several innovative initiatives to drive growth in 2020 and beyond. We launched new solutions for our clients, including ISO 41001 (Facility Management) and ISO 27701 (Privacy Information Management) and expanded our portfolio in areas that are relevant to the resilience of our clients, such as health, safety and wellbeing, sustainability and the circular economy, information security and data privacy. We implemented QR codes on our certificates, permitting clients and consumers to verify their validity, piloted immersive audits using wearable technologies and proactively launched customized audits, following consultation with our clients about their future requirements. To complement these, and to enhance the digitalization of our stream, we deployed our new BSI Assurance Portal across the majority of our estate, so clients can now interact online with us. 2019 also saw the end of a long-standing collaboration with the Saudi Food and Drug Authority relating to conformity assessment for medical devices, which has now been taken back in house. In August, we acquired Health and Disability Auditing New Zealand Ltd. (HDANZ), a Healthcare sector auditing organization based in Christchurch, New Zealand. This acquisition is part of the expansion of our healthcare services certification business into the New Zealand market, building critical scale and supporting our ambition to become a leading provider in Healthcare, one of our focus sectors.

Product Certification

Our Product Certification business grew by 7% in 2019 at constant exchange rates. Our major success during 2019 was the establishment of our new notified body in the Netherlands, which we opened to relieve the uncertainty that our clients were feeling due to the impending withdrawal of the UK from the European Union. We have successfully transitioned the majority of our CE marking scopes to this notified body and hope to complete this process in 2020. However, some delays in this process adversely affected our revenue. We made changes to our organization under a new Product Certification Director, realigning our testing and certification teams under global practices to be more client focused. We launched more products during the year, particularly leveraging our well-known and well-trusted Kitemark in areas such as services, vulnerable customers, the circular economy, clinical governance, digital construction for Building Information Modelling and Smart Cities, and the Internet of Things for digitally connected devices. We continued to invest in our Hemel Hempstead and Loughborough, UK, sites, preparing for ISO 45001 (Occupational Health and Safety Management) certification and made further progress in our planned upgrade of our laboratory equipment, shutting down some unprofitable activities.

Training

Our Training business grew by 6% in 2019 at constant exchange rates, although this was lower than in previous years due to the slowdown in the training market in 2019 following the end of transition. Within our expanding training portfolio, the most significant growth came from products sitting outside our traditional management systems business, including medical devices regulation, performance improvement and Building Information Modelling (BIM) related courses. We also delivered good growth in our expanding health and safety and food safety related portfolios. Indeed, we developed 59 new training courses during the year, taking our global portfolio to 295 products. Encrypted digital training documents were successfully piloted in the UK and US during 2019 as part of our sustainability drive and will be rolled out globally in 2020.

Pietro Foschi
Director, Assurance Services

Regulatory Services

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

Revenue	Growth	Proportion of total revenue
£119.4m	29%	22%
2018: £92.7m	(+26% at constant exchange rates)	2018: 18%

As a result of the reorganization along business streams, rather than geographical lines, we created a new global stream in 2018 to include those areas of business covered by legislation rather than voluntary standards. Currently this stream comprises solely Systems and Product Certification for the Medical Devices industry, but there are plans to expand this remit in future years.

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

Enabling access to the European Union accounts for around 80% of our stream revenue. Due to uncertainty over Brexit, our clients faced a threat that UK-based notified bodies would no longer be permitted to provide CE marking. Our contingency plan, conceived back in 2016, was to open a new notified body (NB) in the Netherlands. NB 2797 was designated and notified by the EU in late 2018 and is now fully operational, with patients having received uninterrupted access to vital products and innovation. The planned seamless migration of thousands of clients to this notified body happened in the first half of 2019, creating minimal, if any, disruption to our clients, allowing us to maintain our leading global market position.

The most significant changes in EU legislation since 1990, Active Implantable Medical Devices (AIMD) and the Medical Device Directive (MDD), are now current and the new Medical Device Regulation (MDR) takes effect in May 2020. The journey for CE conformity assessments under the new legislation is long and demanding, taking up to two years in some cases, and we were pleased to be the first EU notified body to be designated so that we can help our clients to make an early start on that journey to meet the date of application. We also achieved designation under the new In-Vitro Diagnostic Regulation (IVDR), which is effective from May 2024, and we now hold a total of ten designations in the UK and the Netherlands. These designations put us in an excellent position to satisfy client demand in what is going to be a rapidly expanding market over the new few years. Some of our previous competitors in this space have struggled to adapt to the new regulation and, in some cases, have elected to withdraw from the sector.

Regulatory Services was our fastest growing business stream. Indeed, this growth has been so fast that there have been times, particularly in early 2019, when we have experienced supply-side issues and struggled to satisfy client demand. In 2019, we recruited over 200 new employees into this stream, and expect to grow our team at a similar rate in 2020. This, along with a material investment into the IT infrastructure, represents the single largest organic investment in a stream that BSI has made.

The end of 2019 sees our Regulatory Services stream in a good position with respect to the market and our clients. We maintain a leading presence in the EU, albeit now working primarily through our Netherlands notified body, while remaining fully engaged with UK regulators with a view to being part of that system over the next few years. Importantly, we continue to add depth to our product portfolio and derived significant revenue from the Medical Device Single Audit Program (MDSAP) on behalf of the US Food and Drug Administration, Health Canada and regulators in Brazil, Australia and Japan. This programme represents another strong growth engine for the stream.

We continued to plan and invest strongly in developing our market-leading position in the medical devices' regulatory assurance market. We are fully aware of the challenges facing the global medical devices industry in ensuring certification under the new regulations, particularly as demographics predict a continuing increased demand for these products. We remain well placed to address these challenges and anticipate further significant growth in this stream as we continue to satisfy this increased demand.

Manuela Gazzard
Director, Regulatory Services

Consulting Services

Our Consulting Services stream comprises two businesses, an Environment, Health, Safety, Sustainability and Security consultancy and a Cyber Security and Information Resilience consultancy.

Revenue	Growth	Proportion of total revenue
£79.2m	3%	14%
2018: £76.6m	(+0% at constant exchange rates)	2018: 15%

I had the pleasure of joining BSI as leader of this stream in September 2019 following a long career in this industry. Subsequently, the strategy of the stream has been reassessed, the structure and operating model changed, and key leadership positions announced. These changes culminated in early 2020 when we changed the name of this stream from Professional Services to Consulting Services, to reflect its main focus. Going forward, the stream will comprise two global businesses; the Environmental Health and Safety (EHS) consulting business and the Supply Chain Solutions business described in last year's report have been combined into a single consultancy which will be called Environment, Health, Safety, Sustainability and Security (EH3S). Cyber Security and Information Resilience (CSIR) will continue in its current form. This new structure will allow us to serve our clients' needs better through well-defined practices delivering deep subject matter expertise in a client-centric way.

Environment, Health, Safety, Sustainability and Security (EH3S)

Our Environment, Health, Safety, Sustainability and Security (EH3S) consulting business in the US had a difficult year in 2019, following a strong 2018, with revenues declining by 4% at constant exchange rates. There are two main reasons for this underperformance. In an important region for our business, California, US, talent retention issues have resulted in high consultant attrition and turnover during the year. This is a highly competitive market for top talent, exacerbated by an increasing cost of living in this state, particularly in the Silicon Valley region close to our main office. In addition, we have experienced some cases where our service offering has been insourced, and this has led to a loss of key clients and their associated revenue.

Measures have been taken to counteract these impacts for 2020, but 2019 also brought with it some successes and exciting new innovation. We held the BSI Connect Summit in San Francisco, US, in partnership with a leading entertainment technology business, with over 20 companies in attendance, sharing how to leverage technology with consulting. We highlighted the new features of our compliance software, Entropy, as well as the innovation underway with immersive reality and drone-enhanced consulting. These innovations allow our clients deeper access to our consultants and make a positive contribution to BSI's sustainability goals.

Our Supply Chain practice had a good year, with the Supply Chain Management (SCM) tool expanding into Brazil and Australia and being incorporated into our Assurance Services offering for its second-party audit business. Our SCAN programme, which we manage on behalf of US importers, hit a new record, with over 10,000 audits in 70 countries. These tools will help broaden the offering in our newly combined business.

Cyber Security and Information Resilience (CSIR)

Our Cybersecurity and Information Resilience (CSIR) consulting business also had a challenging year in 2019, with organic growth at constant exchange rates down by 3% on 2018. This was due to lower demand for our eDiscovery, Forensics and Cloud Security offerings. These tend to be large orders, and demand can be cyclical. Strong sales of these services in 2019 augur well for a higher level of delivery and revenue in 2020.

In April, we acquired AppSec Consulting Inc., a CSIR business, located in San Jose, California, US. This acquisition strengthens our CSIR services in the US, one of the key markets that are leading the development and implementation of information and cyber security best practice. AppSec Consulting's wide range of services is an excellent match with those offered by the existing BSI CSIR team in Europe. Revenue growth from this acquisition mitigated the organic decline in the revenue of this business elsewhere, leading to overall revenue growth of 21% at constant exchange rates.

We continue to provide thought leadership on global information resilience, covering topics in important areas such as cyberbullying and child protection, partnering with schools and other associations to highlight the threats in these areas and the necessary protections. This thought leadership stance was also highlighted in the successful BSI International Cyber Exchange, held in Dublin, Ireland, and attended by industry leaders and key clients.

Thorsten Querfurt
Director, Consulting Services

Effective risk management

Risk management

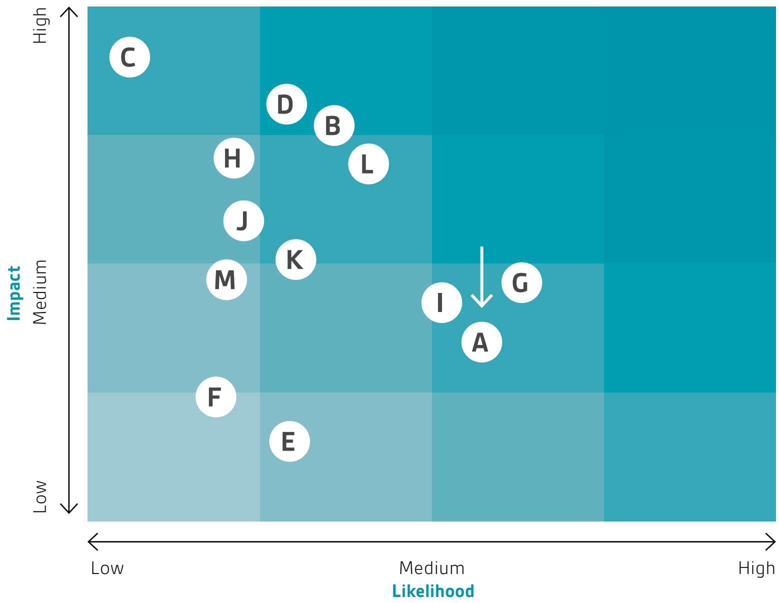
The Board of BSI understands that effective risk management is an inherent part of the business process. The identification, evaluation and mitigation of risk are integrated into key business processes from strategic planning to day-to-day performance management. The Board also understands that it is responsible for the risk management system and for reviewing its effectiveness on an ongoing basis.

We have a continual and dynamic process for identifying, evaluating and managing the risks in the business, based on ISO 31000 (Risk Management). Risks identified are logged in risk registers within all business streams, sectors, geographies and functions. Above these sit the Group Principal and Strategic Risk Registers.

Our management is accountable for managing 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 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 2019

Throughout 2019 we continued to conduct a programme of risk workshops, training and risk reviews. The Group Internal Audit and Risk team conducts all internal audits on a risk basis, and supplements audits with secondees from the business and subject matter experts, where appropriate. An external quality assessment of the Group Internal Audit and Risk department was performed by the Chartered Institute of Internal Auditors in January 2019, which identified significant improvements since the previous review that was conducted in September 2015. The department has implemented all recommendations to ensure that it conforms to the International Professional Practice Framework.



We maintained our certification to ISO 14001 (Environmental Management), and successfully transitioned from OHSAS 18001 to ISO 45001 (Occupational Health and Safety Management) at our Chiswick office in 2019. Business continuity plans are in place for each of our business locations worldwide, the majority of which were formally tested during the year. We extended our certification to ISO 27001 (Information Security Management) beyond our headquarters and Knowledge business in Chiswick, UK, and our Cyber Security and Information Resilience businesses in Ireland and the UK, now to include our Regulatory Services, System Certification and Training businesses, and our key locations globally.

We updated our Code of Business Ethics and introduced an Anti-Bullying and Harassment policy as well as reviewing our Anti-Bribery and Corruption policy, as we do annually. We updated and rebranded our whistle-blowing arrangements as 'Speak Up' and engaged a new, external provider, supported by an awareness campaign. We provided mandatory training for all employees and contingent workers in information security, anti-bribery and corruption and anti-bullying and harassment during the year.

Principal risks and uncertainties continued

We have added a single new risk, 'health, safety and the environment', to reflect our broadening sustainability agenda.

What we will do in 2020

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

We will broaden the scope of certification for ISO 14001 (Environmental Management) and ISO 45001 (Occupational Health and Safety Management) and will enhance our resilience with respect to business continuity and crisis management. Further initiatives to provide assurance around information security risk will also be implemented and we will continue to extend our ISO 27001 (Information Security Management) compliance and certification throughout BSI globally.

BSI has operations in countries which have been affected by coronavirus as our employees have been unable to access our clients' sites. We believe that this will lead to postponements rather than cancellations in the majority of cases but are monitoring developments closely and taking mitigating actions where necessary.

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 2019

We regularly reviewed and updated our Principal Risk Register during 2019 and ensured consistency with our new purpose and mission. The latest version of this register is shown in this report. We have added a single new risk, 'Health, safety and the environment', to the Principal Risk Register in 2019 to reflect the broadening sustainability agenda in our new strategic plan. No risks have been removed.

We consider the 'Brexit' risk, at Group level, to have decreased during 2019 as we have successfully established a notified body in the Netherlands for our Regulatory Services and Product Certification businesses and transitioned certificates to this notified body where requested by our clients. The risk relating to our membership of CEN and CENELEC remains unchanged.

Type of risk	Risk	Mitigating actions	2019 update
1. Relevance			
A. Brexit	The UK's exit from the European Union may affect our membership of CEN and CENELEC, which could reduce our ability to deliver our objectives, particularly in shaping European standards. Macro-economic risk related to ongoing uncertainty continues.	We have increased our engagement with the UK Government to reach a common understanding of the value of international standards. We maintain strong relationships with our stakeholders and European and international standards bodies, so that they are aware of, and value, our contribution.	↘
B. Government policy	We are recognized by the UK Government as the UK National Standards Body (NSB). If this status changed, it could reduce our ability to develop British Standards and influence international standards. Changes to government policy, in any of the many jurisdictions where we operate, could affect our ability to deliver.	We work closely with the UK Government and engage with other governments to ensure that our voice is heard. A regulatory compliance framework and audit programme is in place, including our Impartiality Code of Conduct, on which applicable employees receive training. This ensures that we observe our NSB obligations.	↔
C. Royal Charter status	Our Royal Charter status is important as it allows us to do business independently and without external pressure. It is central to our purpose that we preserve this status.	We engage with stakeholders to ensure that we fulfil our obligations under the Royal Charter. We run a governance regime that applies the principles of the UK Corporate Governance Code, where applicable, and actively review our compliance through Board and Executive Committees.	↔

Key ↔ No change ↗ Increased ↘ Decreased

Type of risk	Risk	Mitigating actions	2019 update
2. Compliance			
D. Accreditation compliance	A large percentage of the work we perform is governed by national and international accreditation bodies and government agencies. Loss of any accreditation could have a serious impact on our business.	We engage with our accreditation bodies and government agencies to ensure that any issue is resolved before it affects our accreditation or notified body status. A regulatory compliance framework and audit programme is in place.	↔
E. Financial and fiscal compliance	There is an ongoing risk in any organization of our size and complexity that irregularities occur, due to human error or fraud, that could impact our financial results.	We have strong reporting lines and policies and procedures in place. We have internal audit teams that perform risk-based audits, supported by an annual external audit of our financial results by PricewaterhouseCoopers.	↔
F. Legal action	Any breach of, or change in, legislation in a jurisdiction in which we do business could result in legal action against us. We could be held indirectly or directly liable for third-party claims arising at client sites or businesses.	Our Legal team operates across the business and develops relationships with external law firms to ensure that we are aware of forthcoming changes to legislation. Key employees receive relevant training and compliance policies and procedures are in place.	↔
3. Business environment			
G. Change management	The achievement of our strategic objectives requires the management of our business in a complex and constantly changing economic environment as well as through internal transformation projects and the integration of acquisitions.	Strategic plans and the annual budgeting and reporting process take the external environment into consideration and are approved by the Group Executive and Board. Project governance and change management processes are in place to ensure the successful implementation of these plans.	↔
H. Innovation	Lack of pace or successful implementation of innovation or competitor action could threaten our competitive position in our chosen markets.	Our Innovation programme has links to all streams, sectors and regions. We monitor and analyse activity in our competitive landscape at local and global level.	↔
I. Talent	An inability to develop, recruit or retain the right skills and diverse workforce in the Group could mean that business performance may suffer, or opportunities are not exploited.	Talent initiatives are reviewed regularly. Succession planning is in place at all levels of the organization to underpin the change in management structure, and regular gap analysis takes place.	↔
J. UK pension scheme	Increases in the ongoing deficit associated with our UK defined benefit pension scheme would adversely affect the strength of our balance sheet.	The scheme is closed to new entrants and future accruals and we hold regular meetings with the Trustee to review the investment policy, funding requirements and any opportunity to reduce this risk.	↔
4. Sustainability			
K. Reputation and brand	Our reputation and brand are extremely important to us, and failure to protect these could undermine our ability to maintain and grow our business.	We promote our purpose and mission with our employees, business partners and other stakeholders. The BSI Code of Business Ethics sets the ethical values and high standards of integrity that apply to every aspect of the way that we work.	↔
L. Information security	Failure to protect against inadvertent loss of information assets or the threat of cyber-attack could adversely affect our trading, reputation or brand.	We have extended our certification to ISO 27001 and will continue to roll out compliance to this standard globally. We invest in our cyber security detection and prevention infrastructure. All employees and contingent workers receive training on information security.	↔
M. Health, safety and the environment	Failure to protect our employees, contingent workers and other stakeholders from illness, injury or environmental impact arising from our activities could adversely affect our trading, reputation or brand.	We have an integrated Health, Safety and Environmental Management System and are certified to ISO 14001 and ISO 45001 at our Group headquarters. We will continue to roll out compliance to these standards globally.	↗

Case study

Innovation in food

Inspiring trust in food production

The production and export of sustainable palm oil is fraught with challenge, and producers face ever-increasing demands on yield, transparency and compliance.

BSI has partnered with aerial-imaging software developer vCapture to create an innovative cloud-based solution using drone technology that makes auditing and crop management practices more accurate, effective and efficient than ever before. Palm growers can now consistently monitor their fields, key to meeting the Roundtable on Sustainable Palm Oil (RSPO) criteria, helping them reduce greenhouse gas emissions, halt deforestation and manage crop health.

'Aerial assessments help build trust and transparency in the Food sector. They also mitigate risk, optimizing the yield and quality of palm oil crops. Such inventive ideas are key to meeting the rising consumer and industry demand for responsible palm oil.'

David Horlock,
Managing Director, Global Food and Retail

Maintaining the RELEVANCE of British Standards

Scott Steedman, Director of Standards

Introduction

2019 was a year that stretched every member of the Standards team, as we faced increased demands across standards development and Committee management, international, European and national policy, digital transformation and engagement with our business and industry sectors, consumer, public interest and government stakeholders.

Developing our standards

At the heart of what we do is the delivery of the work of the National Standards Body (NSB), developing and publishing standards. 2019 saw the adoption and publication of 2,839 international and European standards as British Standards and 104 other National and Publicly Available Specification (PAS) Standards. The breadth of our coverage continued to grow. A few examples from 2019 include:

- BS 45002-2 (General Guidelines for the Application of ISO 45001 (Occupational Health and Safety Management)).
- BS 67000 (City Resilience) with support from the World Bank, UNISDR, UN Habitat, OECD and representatives from UK cities.
- BS 5839-6 (Fire Detection and Fire Alarm Systems in Domestic Buildings).
- BS 95009 (Fairness in Public Sector Procurement), supporting the work of the Cabinet Office.
- BS EN 14971 (Terminology, Principles and Process to Help with Application of Risk Management of Medical Devices).
- PAS 499 (Code of Practice for Digital Identification and Customer Authentication).
- PAS 1040 (Guide to Digital Technology Adoption for Manufacturing Industry).

- PAS 2030, PAS 2031 and PAS 2035 (Framework for the Installation of Energy Efficiency Measures in Existing Dwellings) in support of the Government's 'Each Home Counts' initiative.
- IEC 31010 (Risk Assessment Techniques).
- ISO 14090 (Adaptation to Climate Change).
- ISO 27701 (Privacy Information Management).

During the year, we reorganized a number of our activities, creating separate teams for our engagement work with priority sectors and for the management of our Committees. A third team is now dedicated to supporting clients to implement standards through the delivery of technical assistance and consulting projects on strategy and roadmapping.

Building Information Modelling (BIM) for the Built Environment is a good example of our commitment to support the uptake of standards. Following the publication of the new ISO 19650 (Building Information Modelling) series at the start of the year, we collaborated with the Centre for Digital Built Britain (CDBB) at Cambridge University and the UK BIM Alliance to launch and host a new UK BIM Framework website, which provides an overarching approach and guidance for industry implementation. In addition, we are developing a community of interest for CDBB for Digital Twinning, a major area of digital transformation in the Built Environment.

Developing our digital capability

2019 saw increased investment in our capabilities in digital services and technology development. We carried out ethnographic research into how customers discover, interpret and adapt standards to drive business benefit, and we have used the findings to support future strategy. In standards development, speed of delivery is a constant message. As a result, we launched a more agile standards development process, based on collaborative authoring in a digital environment, that produces iterative deliverables within weeks instead of the much longer period that formal standards development can take. This agile process is helping us to respond to market needs in fast-moving areas and will bring the benefits of a consensus-based approach, adapted to the accelerated timescales of industries and sectors that experience rapid change. Our first project is to develop a common vocabulary for Connected and Automated Vehicles (CAV), part of a wider programme of work supported by the Centre for Connected and Autonomous Vehicles.

Our research shows that the nature of standards needs to change to improve their usefulness. We participated in two CEN and CENELEC pilot projects, aimed at defining how future standards could be drafted to make them easier to use by people and machines. We led on a collaboration with colleagues in ISO, IEC, CEN and CENELEC to elaborate a model for smart standards, standards that are machine applicable, readable and transferable. This blueprint for our future was presented at several global standards industry events, where it was received very positively.

'We launched a more agile standards development process, based on collaborative authoring in a digital environment, that produces iterative deliverables within weeks.'

Engaging with our stakeholders

We have been investing in new ways to reach and understand the needs of more and more stakeholders, so that we can meet their expectations for standards development, strategy and policy. We concluded three years of work with the United Nations Economic Council for Europe (UNECE), leading the development of a UN declaration on gender-responsive standards and standards development. The declaration, signed by BSI in April, has now been signed by over 50 countries.

Our BSI Standards Conference, held in November, which featured our annual Standards Awards, external speakers and panel discussions, attracted its largest ever attendance of over 300. We included new categories of awards to recognize individuals and organizations working on education about standardization and for standards users. We also used the Conference to launch our own 'Inclusive as Standard' initiative, which aims to increase the diversity of the standards developing community, create an inclusive standards development environment, and lead ultimately to the development of standards that are, by their nature, inclusive from the outset.

Influencing internationally

Standards play a vital role in reducing barriers to trade around the world and, throughout 2019, we continued to work on several fronts to maintain the status of international standards supporting global trade and influence. Our work to deliver the programme of UK Government funded projects and activities via the Commonwealth Standards Network (CSN) has steadily grown. The programme seeks to increase the adoption and implementation of international standards across the Commonwealth, to increase levels of intra-Commonwealth trade, enhance economic prosperity and support positive developmental outcomes. CSN membership grew during 2019 to 49 national standards bodies representing 92% of Commonwealth countries which,

Standards review continued

Influencing internationally continued

between them, account for over 99% of intra-Commonwealth trade. The CSN delivered deeply embedded technical assistance programmes in five countries: St. Lucia, Vanuatu, Papua New Guinea, Uganda and Zambia, provided an additional 24 training sessions across the Commonwealth and launched a portal to serve an online community of Commonwealth members and stakeholders. We hosted the second annual meeting of the CSN during the week of the ISO 2019 General Assembly in Cape Town and were pleased with the interest that this project is generating, both from Commonwealth partners and from other countries around the world.

The newly established Knowledge Services team was awarded contracts to help governments in the Middle East region to review and revise national building codes in line with international best practice. Supported by the Foreign and Commonwealth Office (FCO) Prosperity Fund, we launched two major business standards programmes in China and India. The programme in China is focused on increasing the adoption and use of international standards, improving the quality of Chinese proposals submitted to the international standards bodies and improving the understanding of the economic and social impact of international standards in China. The parallel programme in India is focused on the ease of doing business and on developing India's future cities.

'Our relationship with BEIS, as the lead UK Government department responsible for standardization, has been central to our work during the year.'

BSI's bilateral co-operation work with our counterpart in China, Standardization Administration of China (SAC), led to the renewal of our co-operation agreement, further strengthening a relationship that has been built over the past fifteen years. The UK–China Standardization Co-operation Commission has gone from strength to strength in the last five years and we hosted the 2019 meeting in Manchester, where we discussed the progress of our joint working groups on smart cities, graphene, remanufacturing and civil nuclear power, as well as the role of international standards to support China's 'Belt and Road' initiative and China's new 'Standardization 2035' strategy. I was pleased to be able to facilitate a meeting between Dr Tian Shihong, Director of SAC and Vice Minister of the State Administration for Market Regulation (SAMR), and the minister responsible for standards, Kelly Tolhurst, MP of the Department for Business, Energy and Industrial Strategy (BEIS).

We discussed the increased relevance and potential for international standards to help ordinary businesses offer their goods and services around the world and tackled a number of specific trade challenges.

We also signed new memoranda of understanding with several other international partners, including the Directorate for Standards, Metrology and Quality, Vietnam (STAMEQ), the Gulf Cooperation Council (GCC) Standardization Organization (GSO), the Standards Organization of Nigeria (SON) and the Ecuadorian Service for Standardization (INEN). These agreements will facilitate the exchange of best practice in support of international standardization activity and will act as a platform to support the increased use of British Standards in international markets, in support of UK trade objectives.

Supporting the UK Government and public interest

Our relationship with BEIS, as the lead UK Government department responsible for standardization, has been central to our work during the year. Our primary link is through the Office for Product Safety and Standards (OPSS). We benefited from frequent contact with ministers and officials at all levels of Government, underpinned by our continued programme of staff secondment to BEIS and the Department of International Trade (DIT). Alongside policy matters, we undertook specific projects to address stakeholder needs, including PAS 7050 (Specification for Safe Products), sponsored by OPSS, to be published in 2020.

To support the work of the Industry Reference Group Competence Steering Group (IRG CSG), established following the Grenfell tragedy to improve the competence of people working on higher risk residential buildings, I chaired a stakeholder process that developed recommendations for a new overarching framework of national standards on competence. Widely welcomed by industry and the UK Government, the proposed new standards will set out the competence required for the vital roles overseeing the design, construction and operation of in-scope buildings.

Included in the public consultation during the summer, the proposed framework standards will be developed during 2020 under the direction of a dedicated steering group.

Government and Innovate UK have continued to recognize the benefits of focusing on standards to accelerate innovation and create international leadership for the UK. They have supported the launch of major new programmes of work encompassing research, standards strategies and standards development in areas such as Connected and Autonomous Vehicles (CAV), the Faraday battery challenge, the future of mobility, energy smart appliances, digital manufacturing, sustainable finance and the energy efficiency of non-domestic buildings. Following a Government White

Paper on the subject, and in response to a specific request from BEIS Ministers, we worked with partners in the National Physical Laboratory (NPL) and the United Kingdom Accreditation Service (UKAS) to develop a paper on 'Standards for the Fourth Industrial Revolution'. This sort of collaboration will allow us to develop further the concept of the UK Quality Infrastructure (UKQI) and to make the case for the role of standards to promote and accelerate the development of technologies to support the growth and development of the UK economy.

Evolving with the changing global role of the UK

Standards have the potential to support future trade deals between the UK and other countries as they represent an international consensus that both parties can easily adopt. We continue to see strong stakeholder interest in all issues around standards in the post-Brexit era and have responded with briefings and position papers. During the year I was pleased to be appointed to the Department of International Trade (DIT) Strategic Trade Advisory Group (STAG), along with representatives from business, labour, academic and industry associations. Although international standards are, first and foremost, a market-led activity, in all countries they have an important role in supporting regulatory policy. Around 57% of British Standards are also European Regional Standards. BSI's membership of the private sector organizations CEN and CENELEC provides UK stakeholders with the opportunity to influence and agree these standards. As the UK looks to shape a new trading relationship with the European Union and EFTA countries, we have been very active with the UK Government, our industry and other stakeholders and with our colleagues across the 33 other countries in the European regional system to determine the optimal arrangements for our future participation.

Throughout the years following the Brexit referendum, we have emphasized the role of standards in supporting the economy, the UK Government and consumer and public policy interests, informing the public and industry and briefing the UK Government on the challenges and opportunities in the field of international standards. Our intention has been to reflect, as accurately as possible, the views of our stakeholders, who have supported overwhelmingly the continuation of the present standards system in the UK as the best way for UK industry to increase trade, protect consumers and support the UK Government's domestic policy agenda.

As over 95% of new standards published each year by BSI are of international origin, it is vital that we play our part across the entire international standardization system. Our influence at the top table of international standards making has never been higher. UK experts participate in more international committees than any other country. My colleagues and I participate in the governance of the five major private sector international and European standards organizations (ISO, IEC, CEN, CENELEC and ETSI) of strategic importance to the UK.

We renewed our co-operation agreement with our counterpart, Standardization Administration of China.

I was re-elected as Vice-President (Policy) of ISO and have been leading discussions on ISO's strategy to 2030. David Bell, Director of Standards Policy at BSI, has occupied the BSI seat on the ISO Council during my Vice-Presidency term, and we are very grateful to Rodney Turtle, from Schneider Electric UK Ltd, who has been the UK representative on the IEC Council Board during the year.

> 'We are grateful to our Committee members, from all sectors and communities, who work with us to agree the practices that will shape the future of business and industry.'

Conclusion

For BSI, in its role as the NSB, 2019 saw a dramatic and sustained increase in interest in the role of standards from all our stakeholders within the UK and internationally. It was an exciting year and the support of the Board and the Group Executive has been critical to enable us to respond effectively to these demands whilst ensuring that we continued to support the needs of our stakeholders. We are especially grateful to our 12,700 Committee members, from all sectors and communities, who work with us to agree the practices that will shape the future of business and industry.

Scott Steedman
Director of Standards

27 March 2020

LONG-TERM financial strength

Craig Smith, Group Finance Director

Overview

BSI delivered strong financial results again in 2019, with record levels of revenue. Profit fell slightly behind 2018 levels, due to the increased investments in resource and systems infrastructure but was in line with internal expectations. Cash and deposits at year end were marginally behind the balance at the end of 2018, as a result of the investments, two acquisitions and another significant contribution to the UK defined benefit pension scheme. Net asset value increased during the year, predominantly from the profits retained during the year and the reduction in the deficit of the UK defined benefit pension scheme.

2019 was a fairly quiet year for the global trading environment, despite continued uncertainty over Brexit and some concerns over possible trade wars between some of the larger players. In 2018, we profited from eight and a half months' enhanced revenue from the additional work generated by the transition to a new version of our most important standards, ISO 9001 (Quality Management) and ISO 14001 (Environmental Management). As the transition period ended in 2018, 2019 revenue in our Assurance Services stream did not benefit from this and comparatives were adversely affected. On average, Sterling was weaker in 2019 than 2018, compared to our other trading currencies, and revenue and profit were enhanced accordingly.

BSI is fortunate in having a very broad spread of business across business streams, geographies, sectors and domains. As such, our overall results are less susceptible to shifts in macro-economic trends. In 2019, we were able to report higher levels of revenue than ever before in our long history. In addition, the Group's net asset value increased, and the deficit of our UK defined benefit pension scheme fell during the year. We ended 2019 with significant funds in the bank and no external debt. BSI remains in robust financial health.

Exchange rates

We report our results in Sterling and, as an international business, are 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 can, so that it may be invested.

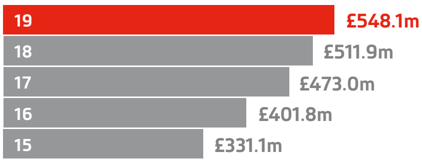
We translate our balance sheets into Sterling at year-end exchange rates. For our income statement we use a weighted average rate. The exchange rates we used for our major trading currencies in 2018 can be seen in the table on page 40.

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 underlying operating profit (UOP) would be around £2.5m (2018: £3.2m).

Revenue

£548.1m

+7%



Revenue

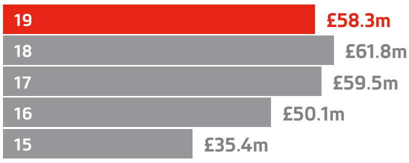
BSI Group revenue increased by 7% in 2019 to £548.1m (2018: £511.9m). Organic revenue growth at constant exchange rates was 4%, lower growth than in recent years as a result of the end of the transition period to the new versions of ISO 9001 (Quality Management) and ISO 14001 (Environmental Management). This was enhanced by 1% inorganic growth, from the two small acquisitions completed during the year, and 2% due to changes in the average values of our trading currencies against Sterling between 2018 and 2019. The overall growth meant that our underlying revenue continued its trend of increasing every year since 1999 and reached its highest level in the 118-year history of the Institution.

Each of our four global business streams reported overall revenue growth in 2019. Our Knowledge stream grew by 2% (2% at constant exchange rates), our Assurance Services stream by 2% (1% at constant exchange rates), our Regulatory Services stream by 29% (26% at constant exchange rates) and our Consulting Services stream by 3% (0% at constant exchange rates). Consulting Services' organic revenue at constant exchange rates actually declined by 5% during the year. Further details of the performance of the streams are given in the Business review on pages 23 to 26.

Underlying operating profit

£58.3m

-6%



Underlying operating profit

In recent years we have invested heavily in the infrastructure and resource of BSI to build a stable platform for profitable growth in line with our strategic plan. These investments, both in capital and revenue terms, increased still further in 2019 as we continued to invest to support the new management structure of BSI as described last year, and increased levels of demand from clients, especially in our Regulatory Services stream, where revenue grew by 29%. Despite this significant investment, which will drive profit in the future but was a net cost in 2019, UOP only fell by 6% from 2018 to £58.3m in 2019.

As with underlying revenue, there are several components of this decrease. Organic UOP at constant exchange rates fell by 9% (2018: 5% increase) and there was a £1.7m or 3% uplift from the first-time implementation of IFRS 16, "Leases" (2018: nil). There were no material impacts from our acquisitions (2018: 1%) nor the changes in the value of Sterling between 2018 and 2019 (2018: 2% loss).

Gross profit margin

46.3%

-0.6ppt

At an overall Group level, our gross profit margin fell slightly from 46.9% in 2018 to 46.3% in 2019. In a group of companies such as BSI, with such a wide geographical spread and diverse blend of business streams, mix can have an impact on overall margins. Most of this reduction can be explained by our Regulatory Services stream which, despite growing by 29% in terms of revenue, recruited heavily in delivery resource during 2019 to service expected further growth in 2020. This new resource is unproductive until it has reached the end of a long and rigorous training period, and temporarily drives down margins.

Financial review continued

Underlying operating profit continued

IFRS 16, "Leases" has been applied for the first time in 2019. All material leases, whether previously classified as operating or financial leases, are now shown on the balance sheet. The lease expense, previously reported in operating expenses, was split in 2019 between an £8.6m charge for depreciation of the assets (2018: £nil) and an interest expense of £2.2m (2018: £nil). As a result, 2019 UOP has benefited from a credit of £1.7m (2018: £nil).

Selling and distribution costs grew faster than revenue, increasing by 10% on their 2018 value. This increase reflects the continued high level of investment in this area, to develop our new global business stream and focus sector structure and to invest in sales resource across the world. Administrative expenses increased by 9% and depreciation and amortization to £21.0m (2018: £12.5m), with the increase due to the implementation of IFRS 16. Net foreign exchange gains, resulting predominantly from the repatriation of funds to the UK in line with our treasury policy, were £0.2m in 2019 (2018: £0.3m loss). On average, Sterling was weaker than in 2018 compared to our other trading currencies but these gains or losses also depend on the timing of repatriations during the year.

These levels of selling, distribution and administration costs resulted in an UOP of £58.3m (2018: £61.8m). This gives rise to an UOP margin of 10.6%, lower than the 12.1% reported last year, due to the higher levels of investments made during 2019, whose benefits will be enjoyed in future years.

Underlying operating profit margin

10.6%

-1.5ppt

Exceptional items and operating profit

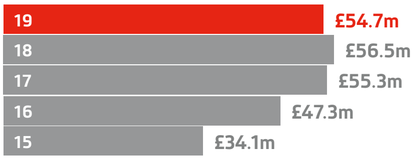
The consideration paid for many of our recent acquisitions has included some element of deferred amount payable to employees three years after the acquisition date should certain employment criteria be met at this time. This amount is accrued over the three years following the acquisition and these costs of £1.2m (2018: £1.7m) have been separately reported as an exceptional item in the 2019 accounts. There were also other acquisition costs of £1.1m (2018: £0.2m).

In 2019, we completed the reorganization of our Assurance Services stream's European operations, moving our planning, scheduling and compliance and risk functions from out of our European units into a single location in Warsaw, Poland. The cost of this restructuring has resulted in an exceptional item of £1.3m (2018: £nil).

Operating profit

£54.7m

-3%



As a result of the above, the total exceptional costs in 2018 were £3.6m (2018: £5.3m). This meant that our operating profit for the year was £54.7m, a decrease of 3% over the 2018 figure of £56.5m.

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 2019 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 £0.4m (2018: £0.5m). We have 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 lease liabilities brought onto the balance sheet under IFRS 16 and were £3.9m in 2019 (2018: £1.9m). Profit before tax decreased by 7% from £55.1m in 2018 to £51.2m in 2019.

Taxation

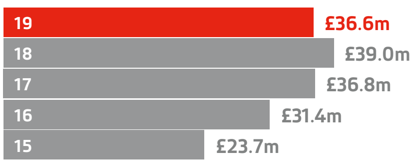
The Group effective tax rate (ETR) on profits before tax in 2019 was 28.5% (2018: 29.2%). Eliminating the prior year adjustments arising on underprovided UK and foreign tax the current year ETR was 28.1% compared to 29.0% last year.

However, we consider the ETR on UOP, which excludes the tax impact of the financing costs and exceptional items, to be a better indicator of the tax management of the operating businesses. In 2019 the ETR on UOP was 26.7% (2018: 27.9%). The mix of the differing tax rates between the countries in which we make our profit can create fluctuations in the overall rate.

Profit for the year

£36.6m

-6%



Balance sheet and cash flow

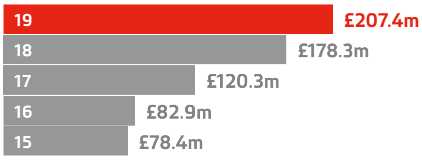
The net asset value of the Group increased by £29.1m or 16% in 2019, from £178.3m to £207.4m. The main contributors to this were the profit for the year of £36.6m (2018: £39.0m) and the reserves element of the decrease in the deficit of the UK defined benefit pension scheme, offset by the effect of foreign exchange differences and the implementation of IFRS 16 “Leases”.

BSI remained highly cash generative during 2019, with cash generated from operations, before contributions to the UK defined benefit pension scheme of £61.7m (2018: £63.6m). Major cash outflows during the year included £7.6m on acquisitions (2018: £0.6m), capital expenditure of £18.0m (2018: £10.9m) and a contribution to the UK defined benefit pension scheme of £13.5m (2018: £13.5m).

Net asset value

£207.4m

+16%



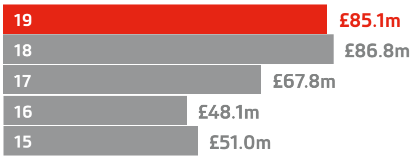
We continued to invest in our information and communications technology infrastructure, with a particularly large investment in 2019 relating to the Workday Human Resources software that was implemented globally during the year, as well as in more client-facing programmes such as British Standards Online (BSOL), the BSI eShop website, our Compliance Navigator product, Entropy Software, and Supply Chain Solutions offerings. Included in this capital expenditure figure was an investment of £0.8m in the development of new training courses (2018: £0.7m).

At the end of 2019 we had zero debt and held cash and deposits of £85.1m, 2% down from the figure of £86.8m at the end of 2018 due to the increased level of investments during the year. This means that, in 2020, we are again well placed to fund any prospective acquisitions or other investments internally. Although the Group is debt free, it recognizes the occasional need for external funding and held bank overdraft facilities of £2.7m (2018: £2.7m), on an unsecured basis, at the end of 2019, 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.

Cash and deposits

£85.1m

-2%



Debtor days were unchanged in 2019 at 62 (2018: 62 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 2019, with receivables written off amounting to 0.3% of revenue at £1.7m (2018: £1.0m) and no material change in the relative ageing of our outstanding trade receivables.

Pensions

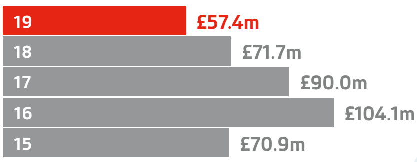
The deficit of the Group’s UK defined benefit pension scheme decreased by £14.3m, or 20%, from £71.7m to £57.4m. This represents a reduction of £46.7m, or 45%, over the past three years.

A contribution was made to the scheme during the year, in accordance with the schedule of contributions agreed with the Pension Trustee, of £13.5m (2018: £13.5m). There was a net interest cost of £1.7m (2018: £1.9m) and operating expenses of £0.7m (2018: £0.5m) recognized in the consolidated income statement. No further exceptional cost relating to the Guaranteed Minimum Pension (GMP) equalization exercise was incurred in 2019 (2018: £2.5m).

UK defined benefit pension scheme deficit

£57.4m

-20%



Financial review continued

Pensions continued

The discount rate used when calculating the liability of the pension scheme is determined by reference to market yields on high quality corporate bonds. The discount rate used in 2019 was 2.0%, a decrease of 0.85 percentage points on the rate used last year (2018: 2.85%). This decrease was predominantly responsible for a £50.5m increase in the overall deficit during the year due to changes in financial assumptions. However, this was mitigated by a gain of £14.3m resulting from changes to demographic assumptions, a gain in the value of the assets in the scheme of £31.0m, experience gains of £8.4m mainly due to recalibration to the 2019 funding valuation membership data and the £13.5m contribution referred to above. We seek to be close to the midpoint in the range of possible market assumptions in the valuation of the assets and liabilities of the pension scheme and confirm this with our external advisors each year.

The Group remains committed to reducing the deficit further and works closely with the Pension Trustee to do so. A triennial valuation of the scheme took place with an effective date of 31 March 2019 and a schedule of contributions has been agreed with the Trustee that is expected to eliminate the deficit by 30 June 2023. This schedule requires a contribution of £12.9m in January 2020, which has been made, and then monthly contributions of £1.3m thereafter. A payment of £13.5m was made into the scheme in March 2019, satisfying the Group's obligations under the previous schedule of contributions relating to the triennial valuation with an effective date of 31 March 2016.

In addition to the UK defined benefit pension scheme the Group operates small defined benefit pension schemes in Taiwan, Germany, Indonesia and the Philippines which provide benefits based on final pensionable salary and service. The net liability recognized on the balance sheet in relation to these schemes at 31 December 2019 was £2.2m (2018: £1.9m) and a contribution of £0.2m (2018: £0.2m) was paid into these schemes during 2019.

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.

Accounting policies

Details of all the principal accounting policies used by the Group appear in Note 2 to the consolidated financial statements. The Group has implemented IFRS 16, "Leases" and IFRIC 23 "Uncertainty over Income Tax Treatments" with effect from 1 January 2019. Full details appear in Note 2 to the consolidated financial statements.

Craig Smith
Group Finance Director

27 March 2020

Exchange rates

	Year end 2019	Year end 2018	**Average 2019**	Average 2018
Australian Dollar	**1.88**	1.79	**1.84**	1.79
Chinese Renminbi	**9.17**	8.67	**8.83**	8.83
Euro	**1.17**	1.10	**1.14**	1.13
Japanese Yen	**143**	140	**139**	147
US Dollar	**1.31**	1.27	**1.28**	1.33

SUSTAINABLE
development for a resilient world

Stephen Page, Chair of the Sustainability Committee

Our commitment

Sustainability is part of our purpose at BSI. We are proud to be a signatory of the United Nations Global Compact, and I am delighted to share our first UN Global Compact progress report.

Our strategy

BSI was established in 1901 with responsibility to society as one of its main objectives and this has never been more relevant than it is today. The development of our 2020 to 2024 strategic plan, following directly after signing up to the UN Global Compact, provided an opportunity for us to revisit our approach to social responsibility and take a more holistic 'sustainability' path. We wanted to ensure that our plan would be anchored in BSI's founding purpose, as set out in our Royal Charter and our values, and would encompass our current and future activities, not just those intended to be philanthropic, using the United Nations Sustainable Development Goals (SDGs) as a credible and communicable basis for our strategy. As a result, we are, henceforth, renaming this review the 'Sustainability review'.

'We mapped our activities to the United Nations Sustainable Development Goals to determine where we are best placed to focus our efforts.'

Our Social Responsibility team worked with our in-house Consulting Services Sustainability team and undertook extensive external research to define our new strategy. We reviewed best practice, engaged in-house subject matter experts, leaders and Board members, looked at what employees, clients and other stakeholders expected from us, and mapped our activities to the United Nations Sustainable Development Goals to determine where we are best placed to focus our efforts to further these global objectives.

Sustainability review continued

Our strategy continued

Recognizing that all the goals are interconnected, and that our Royal Charter requires us to facilitate partnerships, we decided to focus primarily on SDG 17 (Partnerships for the goals). Due to the nature of our activities, we also identified six more goals that BSI is well placed to advance, namely:

- SDG 3 (Good health and wellbeing).
- SDG 7 (Affordable and clean energy).
- SDG 8 (Decent work and economic growth).
- SDG 9 (Industry, innovation and infrastructure).
- SDG 11 (Sustainable cities and communities).
- SDG 12 (Responsible consumption and production).

Our sustainability strategy will be implemented across the Group. We will frame our approach to sustainability using the United Nations Sustainable Development Goals and will continue to map our activities against them and our contribution to them.

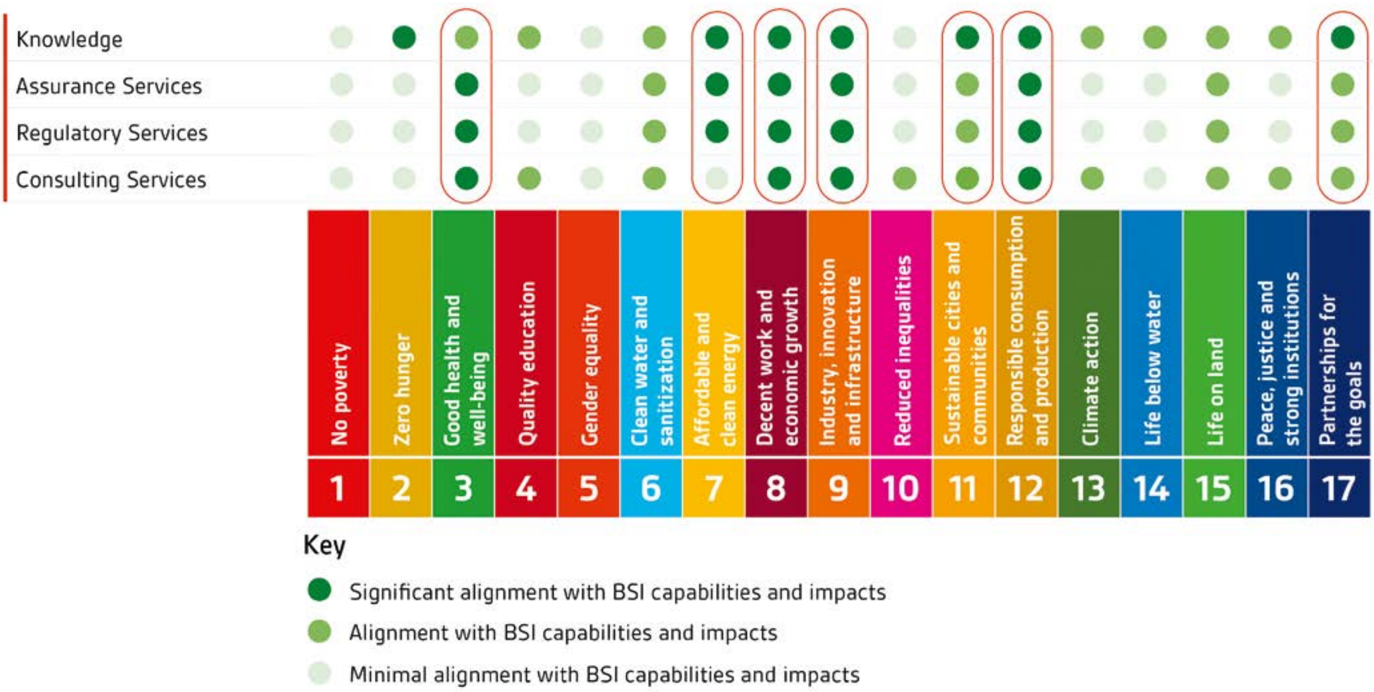
Our services and solutions

The world's leading management systems standards, ISO 9001 (Quality Management), ISO 14001 (Environmental Management), ISO 45001 (Occupational Health and Safety Management), ISO 27001 (Information Security Management) and ISO 37001 (Anti-Bribery and Corruption) all originated as British Standards. Given the scale of our operations relative to the reach of our standards, stakeholders and clients, our greatest contribution to sustainable development is through the work we do with others.

We continue to play a leadership role in the development of standards related to sustainability. For example, in 2019 we published the following standards:

- ISO 14090 (Adaptation to Climate Change), the world's first standard in this important area.
- PAS 2030, PAS 2031 and PAS 2035 (Framework for the Installation of Energy Efficiency Measures in Existing Dwellings) in support of the Government's 'Each Home Counts' initiative.

Mapping our activities to the United Nations Sustainable Development Goals



Howard Kerr, Chief Executive, visited our charity partner, Rays of Hope, to learn about the various programmes it runs in South Africa.

BSI donated computers to the Cyber Green Group in the US. These are repurposed to teach coding and to improve the understanding of the importance of cyber security.

- BS 67000 (City Resilience) with support from the World Bank, UNISDR, UN Habitat, OECD and representatives from UK cities, to help protect critical resources, create and sustain opportunities for enterprise and empower individuals, communities and places to adapt and prosper.
- ISO 27701 (Privacy Information Management), a new standard to help organizations manage operational controls in the new era of privacy, regulatory and compliance requirements such as the EU General Data Protection Regulation (GDPR).

We updated ISO 22301 (Business Continuity Management) to reflect the latest thinking in this area. BSI is also leading new standard development in the areas of sustainable finance and decarbonization in collaboration with the UK Government and other stakeholders. We are fortunate to be in a unique position to work with our clients to help them further their own contribution to the United Nations Sustainable Development Goals, offering assurance, regulatory and consulting services relating to important standards such as:

- BS 8001 (Circular Economy).
- ISO 50001 (Energy Management).
- ISO 14064 (Greenhouse Gas Verification).
- ISO 26000 (Social Responsibility).
- ISO 24000 (Sustainable Procurement).
- ISO 20121 (Sustainable Events).
- ISO 37122 (Sustainable Cities and Communities).

This rich portfolio of standards and our related services and solutions to clients particularly underpin SDG 17 (Partnerships for the goals) as well as, ultimately, the many individual SDGs.

> 'Our sustainability strategy will be implemented across the whole of BSI.'

BSI helps support capacity building

BSI seeks to promote the use and awareness of international standards and improve technical and institutional capacity to use and develop these outside the UK. For example, BSI leads the Commonwealth Standards Network, which received additional UK Aid funding to continue to facilitate Commonwealth trade and poverty reduction through the increased use of international standards. BSI also renewed its agreement with China's Standardization Administration of China (SAC) on the recognition of voluntary standards for business and industry. This memorandum of understanding further strengthens the important role that standards play in underpinning trade between the UK and China.

Our operations

To support our strategy, the UN Global Compact principles on human rights, labour practices, anti-corruption and the environment are incorporated into our policies and procedures. It is our policy to implement appropriate relevant standards internally to enable and strengthen our own resilience as we act to enable a more resilient world. In addition to the guidance of ISO 26000 (Social Responsibility), we adopt the principles of ISO 9001 (Quality Management), ISO 14001 (Environmental Management), ISO 45001 (Health and Safety Management), ISO 22301 (Business Continuity Management), ISO 27001 (Information Security Management) and BS 65000 (Organizational Resilience) and seek independent assurance where relevant and appropriate. We regularly review the level of assurance required to manage risk.

We remain certified to ISO 9001 (Quality Management), ISO 14001 (Environmental Management) and ISO 27001 (Information Security Management) for our Corporate Centre and Knowledge business in Chiswick, UK. In 2019, we transitioned our OHSAS 18001 certification to ISO 45001 (Occupational Health and Safety Management), which requires increased employee consultation and participation on health and safety matters. We also extended our ISO 27001 (Information Security Management) certification to include our regional headquarters in Herndon (Americas), Milton Keynes (EMEA) and Hong Kong (APAC). We are on track to extend the scope of our health and safety certification to cover the entirety of our UK businesses by the end of 2020.

It is important to us that we provide our colleagues with the appropriate knowledge to enable them to be successful. As part of our compliance training schedule, we issued training on our Code of Business Ethics, anti-bribery and corruption, workplace behaviour (anti-bullying and harassment) and information security in 2019. As new colleagues join BSI, they are required to complete these training modules and a test to ensure that they understand our policies for sustainable procurement, health, safety, the environment and quality (HSEQ), competition law and our impartiality code. We regularly undertake internal audits to ensure that our policies are implemented and take corrective action where necessary. We undertook a detailed review of our practices regarding human rights, labour practices and the environment at the end of 2018 and actioned the findings during 2019.

Our colleagues are invited to voice their opinions through regular surveys, and we continued to implement initiatives and track progress against the four areas that were raised as opportunities for improvement in 2017, namely Wellbeing, My Manager, Fair Deal and Giving Something Back. We conducted a Pulse Survey in 2019 that showed improvement in three of these four areas. We also undertook a specific Diversity and Inclusion Survey to understand what we were doing well and where we could improve. We have instigated a forum for employee engagement so colleagues can voice concerns directly to the Board and receive a conclusive response. We reviewed and updated our whistle-blowing procedures in 2019 to facilitate and reinvigorate this process. All details are on our website.

The establishment of a new global procurement department has enabled us to take a more strategic approach to these decisions. We continue to communicate our Sustainability Code, which details our zero-tolerance approach to modern slavery with all of our significant suppliers. We have started to ask high-risk suppliers to declare in writing that they adhere to this code and now include this in our supplier packs. In 2020, we will start to use our Supplier Compliance Management (SCM) tool to conduct supplier due diligence. Further information about our approach to tackling modern slavery can be found in our Slavery and Human Trafficking Statement on the BSI website.

Colleagues in Singapore volunteered for the Tanah Merah Beach Clean-Up.

Colleagues wore green to raise awareness on World Environment Day.

We are very conscious of our environmental footprint and the opportunities for better resource and energy management and continued to raise awareness throughout the year. For example, on World Environment Day many colleagues wore green and raised awareness on social media as part of our 'BSI Goes Green' campaign. We also celebrated our services and solutions that help to facilitate environmental protection, such as ISO 14001 (Environmental Management). To support the implementation of our HSEQ and Sustainability Policy, we introduced a Green Office Checklist Campaign where we reviewed the environmental impact of our sites and identified opportunities for improvement. There were notable initiatives, aimed at improving the environmental performance of our sites. For example, we acted to reduce single-use plastic, offering a discount to colleagues who bring their own cups to our cafeterias. In addition, all colleagues globally received a reusable water bottle as part of our Wellbeing programme. These proved extremely popular and provided an opportunity to demonstrate environmental and ethical sourcing principles.

'We are always looking at better, more sustainable ways to deliver our services and solutions to our clients.'

BSI helps manage carbon across the value chain

Developed by BSI in partnership with the Construction Leadership Council's Green Construction Board, PAS 2080 (Carbon Management in Infrastructure) provides a consistent framework for evaluating and managing carbon across the whole infrastructure value chain. One of the world's leading project development and construction groups underwent an independent assessment with BSI, including rigorous on-site auditing covering all the requirements of PAS 2080, to help provide a framework to support its carbon reduction.

We are always looking at better, more sustainable ways to deliver our services and solutions to our clients. We regularly use virtual training in the US, and this is being increasingly adopted in other countries. In 2020 we will continue to transition from printed to digital training course materials globally. Technology is changing the way we conduct audits, and we have started to use smart wearable glasses and utilize drone technology. Each year we audit and consult for approximately 325,000 days. Immersive or remote auditing will play a key role in reducing our carbon footprint.

Greenhouse gases

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

It is pleasing to report that our overall GHG emissions remained in line with 2018 despite the increased activity of our business, which resulted in a lower overall intensity ratio. Scope 1 emissions fell during 2019, mainly due to a reduction in motor vehicle mileage and are in line with our baseline year result. Our scope 2 emissions have decreased each year since 2017, due predominantly to an increasing proportion of renewable energy used by our sites in the UK and the realization of benefits from our global initiatives such as the implementation of solar panels at our office in Delhi, India. Scope 3 emissions increased from 2018, but at a lower rate than our revenue increase. Our intensity ratios fell for each of the three scopes of emissions. In 2020, we will continue to look at ways to reduce our GHG emissions and intensity ratios. Our global carbon footprint is measured in tonnes of carbon dioxide equivalent (tCO_2e). Emissions are shown in compliance with the Department for Environment, Food and Rural Affairs (Defra) GHG Reporting Guidance and have been calculated using the latest conversion factors published by Defra and the International Energy Agency for overseas electricity data.

Energy Savings Opportunity Scheme (ESOS) audits were undertaken by The Carbon Trust at Chiswick and Hemel Hempstead sites and for the UK fleet. Both the Chiswick and Hemel Hempstead, UK, sites received a 'good' rating, the highest of the three ratings for ESOS audits. Some minor recommendations were made and are being implemented where appropriate. We have identified business travel as an area where we can more actively manage our GHG emissions globally and updated our Group Travel Policy to include more environmental principles. This will be issued in 2020.

Greenhouse gas emissions

Greenhouse gas emissions (tCO_2e)	2019	2018	2017 baseline year
Scope 1 emissions	**4,000**	4,200	4,000
Scope 2 emissions	**2,000**	2,200	2,500
Scope 3 emissions	**13,200**	12,800	10,200
Total	**19,200**	19,200	16,700
Intensity ratio (tCO_2e/£m revenue)			
Scope 1	**7.30**	8.20	8.46
Scope 2	**3.65**	4.30	5.29
Scope 3	**24.09**	25.00	21.56
Total	**35.04**	37.50	35.31

Definitions

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

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

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

Sustainability review continued

Our people

Our ambition remains to enable each person to fulfil their potential at BSI in an environment of openness and trust. During 2019, we made substantial progress with our Diversity and Inclusion agenda. With the help of our external partner, Global Diversity Practice, we undertook interviews and focus groups and completed our first global Diversity and Inclusion Survey to understand the issues that are important to our people. The survey, which had 30 questions, was completed by 62% of our colleagues, and has given us a richness of both quantitative and qualitative data to work with going forward.

Our people are, generally, very positive about working at BSI, with an overall positivity rating of over 75%. Our commitment to Diversity and Inclusion is viewed positively by 82% of colleagues, and 83% of respondents agreed that we are striving to develop a more inclusive culture. It was particularly pleasing to find that 92% of respondents feel that their colleagues respect them, which was the most positive response across all the survey statements. This is clearly a strong foundation upon which to build.

There are areas where we have some work to do and we have put in place a Global Inclusion Working Group, employees drawn from all parts of BSI. The group has been tasked with developing action plans to move forwards on areas for improvement. At the same time, each of the Group Executive team attended a workshop on Diversity and Inclusion and have instigated similar workshops for their own leadership teams. Each of these workshops have resulted in local actions.

Our Board of Directors is now 78% male, following the appointment of a male Non-Executive Director in May 2019. The proportion of male and female senior managers, and in our total workforce, has not changed significantly since 2018.

'Our ambition remains to enable each person to fulfil their potential at BSI in an environment of openness and trust.'

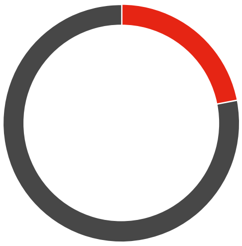
Colleagues in the UK spent their volunteer day gardening to support a local park.

Colleagues in the US supported children with learning difficulties to learn to ride bicycles.

Directors

Female 22%
2018: 25%

Male 78%
2018: 75%



Senior managers

Female 29%
2018: 29%

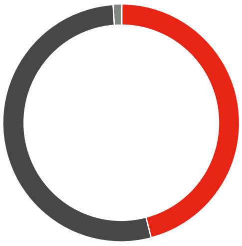
Male 71%
2018: 71%

Total workforce

Female 46%
2018: 46%

Male 53%
2018: 54%

Unknown 1%
2018: 0%



Our communities

We actively support our colleagues to contribute to their local communities through charitable giving and volunteering. We have supported many of our colleagues' fundraising initiatives across the Group through our match-giving scheme. Our colleagues have chosen to support various local charitable causes though fundraising and volunteering. The causes supported include cancer research, clean water, education, supporting deaf and disabled people, disaster relief efforts, heart disease, homelessness, mental health, men's health, orphaned children, and wildlife conservation.

Our global charity partnership with Room to Read encourages girls' education in India and, during 2019, our colleagues raised money to fund over 180 girls to stay in secondary education in India, helping to change their lives and their local communities. We have been shortlisted for a British Chamber of Commerce award for education equality in recognition of our support for girls' education in China. We continue to work with local charities to facilitate access for vulnerable children to education in Malaysia and South Africa and awarded a student bursary at the University of Pretoria, South Africa.

BSI helps address excessive working hours

BSI supported the supplier of a leading global brand to identify the cause of excessive working hours in one of its sites. The supplier had identified consistently high worker turnover as one potential cause. Over the next twelve months, BSI provided on-site, online and telephone support through its Supplier Compliance Manager (SCM) workflow and reporting platform. The programme reduced annual worker turnover from 18% to 3%, reduced production defects and rework and enabled the supplier to re-establish its control over working hours, improving the wellbeing of its employees.

We have also awarded 30 scholarships to students in Vietnam. In the UK we hosted 30 apprenticeships, six internships with the social mobility charity Career Ready and over 40 work experience placements and delivered our first cause-marketing campaign whereby we donated £10 to the homeless charity Crisis for every training course sold in the UK. The funds provided over 440 vulnerable people with access to hot food and shelter. Several of our offices collected and donated books, IT equipment and other equipment to benefit students in education and their wider communities.

'We have supported many of our colleagues' fundraising activities across the Group through our match-giving scheme.'

Conclusion

We are proud to partner with our many stakeholders to take meaningful action to further the United Nations Sustainable Development Goals and inspire trust for a more resilient world.

Stephen Page
Chair, Sustainability Committee

27 March 2020

Corporate governance

Maintaining HIGH STANDARDS of governance

John Hirst, Chairman

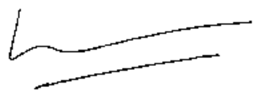
The British Standards Institution was founded in 1901 and, reflecting its public service aims, was incorporated by Royal Charter in 1929.

Our purpose, which we summarize as 'inspiring trust for a resilient world', is set out in full in our Royal Charter and gives us our public interest objectives. As a non-profit distributing company, we value our growth and profitability because they increase our capacity to make an impact and fulfil our purpose.

Consistent with our purpose, our duty to our stakeholders and our unique status as the UK National Standards Body, we are committed to the highest standards of corporate governance. This is fundamental in building and retaining the trust of all our stakeholders. We have always been mindful of our wider stakeholder group and our need to ensure that their views are understood, and their interests considered in our decision-making process. In 2019, we established a formal process to map our key stakeholders and how we engage with them, with the intention of monitoring more systematically our impact on them and their influence on BSI.

With no stock exchange listing, BSI is not required to apply the Financial Reporting Council (FRC) UK Corporate Governance Code 2018 (the 'Code'). However, we have, for many years, complied with the Code, where possible, as if we were a listed company. In doing so, we have established internal governance processes that reflect best practice. Ultimate accountability for the governance of BSI lies with our Board of Directors, the majority of whom are Non-Executive Directors who can draw on their considerable experience in diverse areas of business. The Board is supported by Audit, Remuneration, Nominations and Sustainability Committees, of which the Chair and the majority of members are Non-Executive Directors. In addition, the Standards Policy and Strategy Committee, which is an advisory committee informed by the views of those interested in standards, does valuable work in gathering and distilling information on standardization matters to advise the Board.

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



John Hirst
Chairman

27 March 2020

Board of Directors

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

John Hirst CBE

A N S

Chairman

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

Other appointments John is Senior Independent Director of Anglian Water Services and a Non-Executive Director of Marsh Limited. He is Chairman of the National Oceanography Centre.

Howard Kerr

N S

Chief Executive

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

Other appointments None.

Craig Smith FCCA

Group Finance Director

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

Other appointments None.

Scott Steedman CBE

SP

Director of Standards

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

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

Lucinda Riches CBE

A N R

Senior Independent Director

Skills and experience Lucinda Riches was appointed advisor to the Board in May 2011, Non-Executive Director in May 2012 and Senior Independent Director in October 2015. She was an investment banker for over 20 years at SG Warburg and its successor firms, ultimately as Global Head of Equity Capital Markets and a Board Member at UBS Investment Bank. She has held Non-Executive Director positions at UK Financial Investments Ltd and Diverse Income Trust PLC.

Other appointments Lucinda is Non-Executive Director and Chair of the Remuneration Committee at Ashtead Group PLC, Senior Independent Director at ICG Enterprise Trust PLC and Non-Executive Director at CRH PLC and Greencoat UK Wind PLC.

Alison Wood

A N R

Non-Executive Director

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

Other appointments Alison is Non-Executive Director and Chair of the Remuneration Committee at Costain PLC and TT Electronics PLC. She is also Non-Executive Director at Cairn Energy PLC.

Stephen Page

N R SP S

Non-Executive Director

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

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

Douglas Hurt FCA

A N R

Non-Executive Director

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

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

Ian Lobley

A N

Non-Executive Director

Skills and experience Ian Lobley joined the Board as a Non-Executive Director on 1 May 2019. Ian is a Managing Partner at 3i Group PLC, the FTSE 100 international investor, where he is also a member of the Investment Committee. With over 30 years of experience in private equity, he has been an active investor in and board member of portfolio companies in many countries and sectors. He graduated in Chemical Engineering from the University of Birmingham and, prior to 3i, worked as an engineer for BOC Speciality Gases.

Other appointments Ian is Non-Executive Director of 3i Infrastructure PLC, AES Engineering and Cirtec Medical within 3i's global portfolio.

Grainne Brankin

Company Secretary

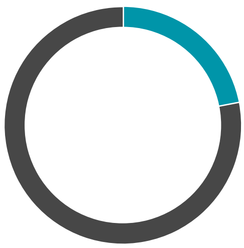
Skills and experience Grainne Brankin joined the Group in June 2017 as General Counsel and Company Secretary. Grainne qualified at Clifford Chance and has wide experience of international governance, risk and transactions, in particular in technology and media. She has held General Counsel and executive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

Other appointments None.

Board gender diversity

Female 22%

Male 78%

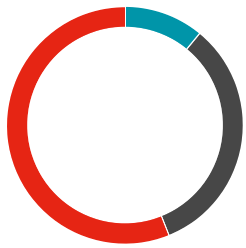


Board tenure

<1 year 11%

1–5 years 33%

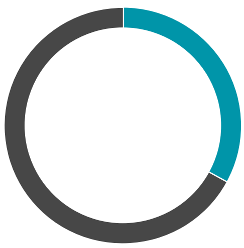
5+ years 56%



Board composition

Executive 33%

Non-Executive 67%



Committee membership

- A Audit Committee
- N Nominations Committee
- R Remuneration Committee
- S Sustainability Committee (formerly known as the Social Responsibility Committee)
- SP Standards Policy and Strategy Committee
- Committee Chair

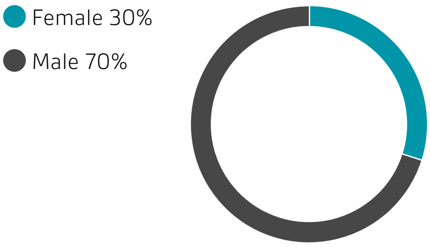
Our Group Executive

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

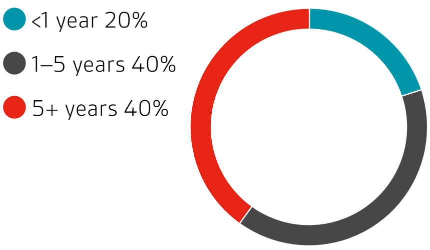
Our Group Executive reflects the new structure of BSI. Chaired by the Chief Executive, it comprises the leaders of the four global business streams, the Group Commercial Director, the Director of Standards and the heads of the global Finance and IT, Human Resources and Legal functions.

The Group Executive supports the Chief Executive in running the business and delivering the strategy of the Group.

Group Executive gender diversity



Executive tenure



Howard Kerr
Chief Executive

Craig Smith
Finance Director

Shirley Bailey-Wood MBE
Director, Information Solutions

Pietro Foschi
Director, Assurance Services

Scott Steedman CBE
Director of Standards

Grainne Brankin
General Counsel

Kelvyn Harris
Interim Human Resources Director

Manuela Gazzard
Director, Regulatory Services

Thorsten Querfurt
Director, Consulting Services

Harold Pradal
Commercial Director

Excellence in governance

Governance framework

The Board of The British Standards Institution is committed to the highest standards of corporate governance, which it considers fundamental to the success of the business. The British Standards Institution is governed by its Royal Charter and Bye-laws. The Companies (Miscellaneous Reporting) Regulations 2018 require BSI to specify the governance regime it follows and in 2019 BSI continued to apply the Financial Reporting Council (FRC) UK Corporate Governance Code 2018 (the 'Code'), wherever relevant to its constitution and operation as a Royal Charter Company without shareholders. In particular, the provisions of the Code relating to shareholders are not applicable to the Company (E.1 of the Code). Directors are not subject to re-election at the AGM each year (B.7.1 of the Code) but must be re-elected at the AGM following their appointment. One-third, rounded down, of other Directors stand for re-election at each AGM, as required by the Bye-laws of the Company.

An overview of how the Board has fulfilled its duty, set out in Section 172 of the Companies Act 2006, to promote the long-term success of the Group, considering the interests of the Group's stakeholders, including the impact of its activities on the community and environment, is set out on pages 76 and 77 of the Directors' report.

The Board

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

In 2019 the Board comprised John Hirst, who became Chairman on 1 January 2019, the Chief Executive, Howard Kerr, and two further Executive Directors, Craig Smith and Scott Steedman, responsible for finance and standards, respectively. Douglas Hurt, Stephen Page, Lucinda Riches and Alison Wood were Non-Executive Directors throughout the year. On 1 May 2019 Ian Lobley was appointed as a Non-Executive Director. The Directors of the Company and their roles are given in their biographical details on pages 50 and 51.

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 for the disclosure and management of any actual or potential conflicts of interest.

The Board

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

Chairman

Role and responsibilities

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

Board Committees

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

Standards Policy and Strategy Committee

Role and responsibilities

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

Standards review on **pages 32 to 35**

Executive Committees

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

Senior Independent Director
Role and responsibilities

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

Non-Executive Directors
Role and responsibilities

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

Executive Directors
Role and responsibilities

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

Group Chief Executive
Role and responsibilities

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

Company Secretary
Role and responsibilities

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

Sustainability Committee (formerly known as the Social Responsibility Committee)
Role and responsibilities

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

Sustainability review on **pages 41 to 47**

Audit Committee
Role and responsibilities

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

Committee report on **pages 60 to 63**

Nominations Committee
Role and responsibilities

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

Committee report on **pages 64 and 65**

Remuneration Committee
Role and responsibilities

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

Committee report on **pages 66 to 75**

Group Executive
Role and responsibilities

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

Banking and General Purpose Committee
Role and responsibilities

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

Code of Conduct Oversight Committee
Role and responsibilities

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

Information Security Steering Committee
Role and responsibilities

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

Corporate governance report continued

Stakeholder engagement

In order for the Company to meet its responsibilities to stakeholders, the Board has to ensure effective engagement with them and encourage their participation. In 2019 the Board adopted a formal process to monitor stakeholder engagement at Board and senior management levels of the Company. The Board regularly considers the identification and prioritization of stakeholders and whether its relationships with key stakeholders are being managed appropriately. The Board ensures that it has effective engagement mechanisms in place to gain a clear understanding of the views of key stakeholders so that their interests and the matters set out in Section 172 of the Companies Act 2006 can be considered in Board discussions and decision making.

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 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 eight meetings of the Board during the year ended 31 December 2019. 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 2019 are shown in the table opposite.

Evaluation, training and support

An evaluation process is carried out annually to support continuing improvement in Board, Board Committee and individual Director effectiveness. The intention is to have this process led by an external facilitator at three-year intervals. Independent Board Review, a division of Independent Audit Limited, facilitated the evaluation in 2017, and the Board agreed that BSI should facilitate the review itself again in 2019, a process which has been undertaken and completed. In order to provide consistency, assess change and build upon the benefits of the previous years' processes the questions set were based on those from earlier years with the responses reviewed and analysed internally. The conclusion from the process was that, while the Board was effective and working well, there was always potential to improve.

It was agreed to implement the changes suggested from the evaluation, which included a greater understanding of client perspective, brand and marketing strategy, talent and succession, risk management as a driver of behaviours, Board training and development and Board space, pace and purpose. The process also confirmed that the Board Committees were effective and working well but suggestions for their continuing improvement would be actioned.

Training in matters relevant to their role on the Board is available to all Directors. When appointed, new Directors are provided with a full and tailored induction in order to introduce them to the business and management of the Group. A programme of introductory training and site visits was provided to Ian Lobley when he joined the Board in May 2019. The Directors are supplied with the best available information in a form and of a quality to support them in the decision-making process. The Board is supported by the Company Secretary, who is available to give ongoing advice to all Directors on Board procedures and corporate governance. There is a procedure for Directors to have access, if required, to independent professional advice, at the expense of the Company.

Board meeting attendance

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

Attendance	Jan	Mar	May	Jun	Jun	Jul	Sep	Dec
Chairman								
John Hirst[1]	●	●	●	●	●	●	●	●
Executive Directors								
Howard Kerr	●	●	●	●	●	●	●	●
Craig Smith	●	●	●	●	●	●	●	●
Scott Steedman[1]	●	●	●	●	●	●	●	●
Non-Executive Directors								
Douglas Hurt	●	●	●	●	●	●	●	●
Ian Lobley[2]			●	●	●	●	●	○
Stephen Page	●	●	●	●	●	●	●	●
Lucinda Riches	●	●	●	●	●	●	●	●
Alison Wood	●	●	●	●	●	●	●	●

● Attended ○ Did not attend

1 Appointed Chairman with effect from 1 January 2019.

2 Appointed with effect from 1 May 2019.

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

Board Committees

The Board delegates certain of its responsibilities to standing Committees described in more detail below. These Committees have written terms of reference that set out 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.

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

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 60 to 63.

Nominations Committee

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

- A report by the Nominations Committee, including details of its membership, is set out on pages 64 and 65.

Board focus during 2019

January
- Proposed investments
- Risk registers and the related drafting for the Annual Report
- 2018 preliminary results
- Stakeholder engagement process

March
- Chairman's and Non-Executive Directors' fees
- Proposed investments
- 2018 results and approval of the Annual Report and Accounts
- Business update on customer satisfaction, Net Promoter Score and feedback
- Update on the progress of the organizational development plan
- Strategic plan 2019–2024
- Human Resources update
- Stakeholder engagement process

May
- Proposed investments
- Business transformation update
- Corporate purpose update
- Impartiality Code of Conduct compliance
- Preparations for the Annual General Meeting

June (two meetings)
- Proposed investments
- Review of strategy with the Group's Executive management
- Strategic plan 2019–2024
- Risk Register compliance report
- Business update on Knowledge stream reorganization
- Business update on potential consolidation in the Assurance market
- Whistle-blowing reports from the Audit Committee
- Stakeholder engagement process

July (ad hoc)
- HR systems transformation

September
- Acquisition of AppSec Consulting
- Talent management strategy and succession planning process
- Risk Register compliance report
- Approval of the strategic plan 2019–2024
- Business update on Assurance including accreditation compliance
- Employee engagement
- Stakeholder engagement process

December
- Annual evaluation of the Board and its Committees
- Executive-led strategic review (India)
- Risk Register compliance report
- Regulatory Services Transformation Programme
- Succession plan for key leaders
- Corporate governance revisions update, including workforce and stakeholder engagement initiatives
- Adoption of updated terms of reference for the Board and its Committees
- Consideration of BSI's cyber security and information resilience
- Approval of the 2020 budget
- Workforce engagement

Board Committees continued

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 66 to 75.

Sustainability Committee
(formerly known as the Social Responsibility Committee)

The Sustainability Committee is responsible for guiding the commitment of the Group to sustainability.

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

Standards Policy and Strategy Committee

The principal objective of the Standards Policy and Strategy Committee is to bring together the views of stakeholders 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 Dan Byles, who was appointed to replace Carol Sergeant CBE, retiring on 1 July 2019. The Committee's members include Scott Steedman, Director of Standards, and Stephen Page, Non-Executive Director, with the Chairman and Group Chief Executive in attendance.

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

Internal control

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

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

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

The Group has a risk and compliance function which monitors compliance with the Group Compliance Framework on behalf of the Board.

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

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

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

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

The Group's internal control system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. There is an ongoing process, established in accordance with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014, for identifying, evaluating and managing the significant risks faced by the organization, which has been in place during the year under review and up to the date of approval of this Annual Report and financial statements.

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

By Order of the Board

John Hirst
Chairman

27 March 2020

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. The Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under UK company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the profit of the Group and the state of affairs of the Group and the Company for that period. In preparing the financial statements, the Directors are required to:

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

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

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

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

Directors' confirmations

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

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

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

By Order of the Board

Grainne Brankin
Company Secretary

27 March 2020

Report of the Audit Committee

Introduction by Douglas Hurt, Chair of the Audit Committee

During the year ended 31 December 2019 the Committee comprised:

Douglas Hurt (Chair)

Lucinda Riches

John Hirst

Ian Lobley (from 1 May 2019)

Alison Wood (from 6 December 2019)

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

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

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

The Committee is responsible for overseeing the work of the external auditors, PricewaterhouseCoopers LLP, and, prior to their audit, discussed and agreed with them the nature and scope of the audit. The 2019 audit continues to apply the risk-based approach to the audit plan designed to address the developing profile of the Group.

The Committee is also responsible for the relationship with the external auditors and assessing the effectiveness of the audit process, which assessment considers the quality of the audit and the expertise and judgements of the auditors. The Committee is responsible for ensuring that possible conflicts of interest with the external auditors are identified and avoided, including by monitoring the operation of the Group's policy on the engagement of the external auditors to supply non-audit services. The Committee approved the fees of the external auditors and recommended their re-appointment at the Annual General Meeting.

While the Committee operates to a pattern of work around the Group's annual reporting cycle, it also regularly considers matters in areas that are key to managing risks, such as reviewing the 'whistle-blowing' process, anti-bribery measures and fraud protection activity as well as other financial compliance matters. The Committee reviewed the implementation of IFRS 16 and its impact on the Group's financial statements. Key activities of the Committee in 2019 are noted on page 62.

The Committee noted the FRC audit quality review results. In order to address the findings the auditors undertook a programme to enhance audit quality.

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

Douglas Hurt
Chair of the Audit Committee

27 March 2020

The Audit Committee

The Committee is established by the Board under terms of reference that are reviewed annually and were most recently updated in December 2019. A copy of the Committee's terms of reference is available on the BSI Group website.

Membership

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

The appointment of a company chairman to an audit committee is not in compliance with the recommendations of the Financial Reporting Council (FRC) UK Corporate Governance Code 2018 (the 'Code'). However, John Hirst joined the Committee upon his appointment to the Board on 15 October 2018. He is a member of the Association of Corporate Treasurers and a fellow of the Institute of Chartered Accountants and has a wealth of experience leading and transforming complex organizations. He currently holds a number of Non-Executive Director roles including in Marsh Limited and as Senior Independent Director and Chair of the Audit Committee of Anglian Water Services. He continues as a member of the Committee following his appointment as Company Chairman on 1 January 2019, although not in compliance with the recommendations of the Code, so that the Committee can continue to benefit from his financial and business expertise.

Douglas Hurt is a Chartered Accountant and has held many senior financial roles including Group Finance Director at IMI PLC. He is Non-Executive Director and Chairman of the Audit Committee at Vesuvius PLC and Countryside Properties PLC. The Directors of the Company and their roles are given in their biographical details on pages 50 and 51. Douglas Hurt, John Hirst, Ian Lobley and Lucinda Riches 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.

Audit Committee attendance

The Committee met three times in the year ended 31 December 2019.

Attendance	Mar	Jun	Nov
Douglas Hurt	●	●	●
John Hirst	●	●	●
Ian Lobley[1]		●	●
Lucinda Riches	●	●	●
Alison Wood[2]			

● Attended

1 Appointed with effect from 1 May 2019.

2 Appointed with effect from 6 December 2019.

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

The Audit Committee continued

Activities of the Committee

During the year the Committee, among other things:

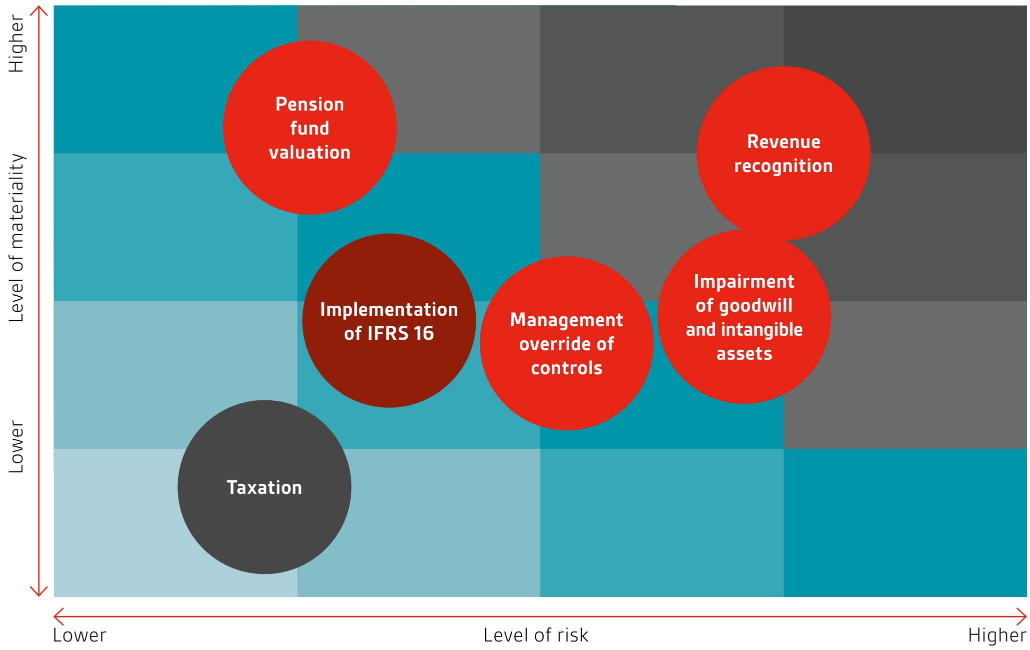
- received and considered, as part of the 2019 year-end process, an audit report from PricewaterhouseCoopers LLP on matters including audit progress and findings, quality of earnings, reporting matters, judgement areas, taxation, systems and controls, risk management, corporate governance and auditor independence;
- reviewed the draft financial statements and the 2019 Annual Report and, after due consideration, recommended them to the Board;
- reviewed the implementation of IFRS 16 and its expected impact on the Group's financial statements;
- agreed the scope and content of the annual Letter of Assurance by senior managers of the Group and reviewed a report on the returns received;
- agreed the 2019 audit plan with the auditors based on the risk-based approach adopted to address the developing profile of the Group;
- agreed areas of audit focus with the external auditors which, for 2019, were primarily the detection of fraud in revenue recognition and management override of controls, as well as the UK defined benefit pension scheme's valuation, impairment of goodwill and intangible assets and other matters of potential risk;
- received reports on issues raised through the Company's 'whistle-blowing' hotline and similar channels and ensured that proper processes were in place to investigate and address the matters reported;
- considered the Internal Audit department's reports, looked at its findings from each location/business area and reviewed and discussed with the Head of Internal Audit and Risk how and when issues were addressed and closed;
- approved an Internal Audit plan for 2020, based on a risk-based approach of principal risks overlaid with country risk with regard to the assurance map;
- reviewed the results of the Internal Audit 2019 EQA against the CIIA International Professional Practices Framework and monitored the actions taken by it in response;
- met the Head of Internal Audit without the presence of management;
- approved the fee payable to the external auditors and agreed that an effective, high quality audit could be conducted for the fee;
- considered occurrences of fraud and attempted fraud against the Group and reviewed the measures taken to help prevent further instances;
- considered and approved the external auditors' letters of engagement and letters of representation;
- received a comprehensive treasury and tax update and monitored the Group's response to legislative and regulatory changes in these areas;
- considered and confirmed the procedures of the Company, as the National Standards Body, for compliance with its financial obligations under the Memorandum of Understanding with the UK Government;
- monitored the progress of the finance transformation 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 56. The process confirmed that the Committee was working well and was effective and led to some valuable discussion. As a result of the 2019 evaluation process, in 2020 the Committee will focus on the Group's control framework and consider how effectively all the Group's assurance functions work together to cover the Group's major risks, ensuring that there are no major gaps or duplications; consider if there is scope in the Internal Audit plan for an increase in the number of value-added audits of broader management processes; and place more emphasis on the quality of the Group's narrative reporting.

Significant areas of risk
Areas of risk considered by the Committee in relation to the financial statements for the year ended 31 December 2019 were:

- Significant risk
- Elevated risk
- Other key matters



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

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

External audit
The Committee addresses the effectiveness of the external audit process by:

- 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 74:1.

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

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

The Committee considers that the relationship with the external auditors continues to work well and remains satisfied with their effectiveness. However, in light of the long tenure of PWC, when the external audit services contract is re-tendered, no later than 2023, PWC will not be invited to participate in the process. The Committee has recommended to the Board that PricewaterhouseCoopers LLP be re-appointed as the Company's auditors at the 2020 Annual General Meeting.

By Order of the Board

Douglas Hurt
Chair of the Audit Committee

27 March 2020

Report of the Nominations Committee

Introduction by John Hirst, Chair of the Nominations Committee

During the year ended 31 December 2019 the Committee comprised:

John Hirst (Chair from 1 January 2019)

Douglas Hurt

Howard Kerr

Ian Lobley (from 1 May 2019)

Stephen Page

Lucinda Riches

Alison Wood

One of the main areas of focus of the Nominations Committee (the 'Committee') during 2019 was Non-Executive Director succession. In light of Alicja Lesniak's term as Non-Executive Director coming to an end on 31 March 2018, a recruitment process was undertaken for a successor, led by John Hirst as Chairman. The Committee agreed a description of the role and of the capabilities required, following an evaluation of the balance of skills, experience, independence and knowledge required. It then authorized the Chairman and Chief Executive to contract with a recruitment consultant to seek appropriate candidates based on merit, against the objective criteria set out in the description and, in accordance with the Board Equality and Diversity Policy, paying particular attention to the merits of diversity on the Board. Odgers Berndtson was selected to handle the agreed recruitment. This firm has no connection with BSI other than having acted from time to time, when selected, to assist with Board and senior level recruitment. A list of potential candidates was drawn up by the recruitment consultants for the role and suitable candidates were considered in detail and interviewed by John Hirst, Howard Kerr, other members of the Committee and the Executive Directors so that the final selection could be recommended by the Committee to the Board for appointment. Following this process, Ian Lobley was appointed to the Board on 1 May 2019 as Non-Executive Director.

Carol Sergeant's term as Chair of the Standards Policy and Strategy Committee came to an end on 1 July 2019. Accordingly, the recruitment process for a Chair to succeed her had been undertaken led by John Hirst as Chairman. Odgers Berndtson was again selected to handle the agreed recruitment. A list of potential candidates was drawn up by the recruitment consultants for the role, and suitable candidates were considered in detail and interviewed by John Hirst, Scott Steedman and Stephen Page and other members of the Committee so that the final selection could be recommended by the Committee to the Board for appointment. Following this process, Dan Byles was appointed Chair of the Standards Policy and Strategy Committee on 1 July 2019 for an initial term of three years.

In light of Lucinda Riches' term as Senior Independent Director coming to an end on 18 May 2020, the recruitment process for a further Non-Executive Director to succeed her is well advanced. The Committee has agreed a description of the role and of the capabilities required, following an evaluation of the balance of skills, experience, independence and knowledge required. It has then authorized the Chairman and Chief Executive to contract with a recruitment consultant to seek appropriate candidates based on merit, against the objective criteria set out in the description and, in accordance with the Board Equality and Diversity Policy, paying particular attention to the merits of diversity on the Board. Ridgeway Partners was selected to handle the agreed recruitment. This firm has no connection with BSI other than having acted from time to time, when selected, to assist with Board and senior level recruitment.

During 2019, as is the Committee's established practice, it undertook its annual rolling review of the Board and Committee succession plan, having regard to the implications of the Group's strategic trajectory for the longer-term composition of the Board. Considering the 2019–2024 strategic plan the Committee considered whether there was any significant gap in the Board's collective expertise that should influence succession planning and, while it was agreed that there was no such gap at present, it was determined that the Committee would keep the matter under review. The Committee also received and discussed an update from the Chief Executive on the Group's talent and succession programme for the senior leadership team and intends to review this regularly to help ensure that the Group has the appropriate talent in place to meet the opportunities and challenges arising from the implementation of its strategy.

For 2020, in addition to addressing any Board recruitment as necessary, the Committee will continue to consider the implications on Board composition of the Group's strategic plan and will also review the senior leadership succession plan for critical roles below the Board.

John Hirst
Chair of the Nominations Committee

27 March 2020

The Nominations Committee

In 2019, the Committee maintained its continuing assessment of the balance of skills, knowledge, experience and diversity on the Board.

The Committee is established by the Board under the terms of reference, reviewed annually, and most recently updated in December 2019. A copy of the Committee's terms of reference is available on the BSI Group website.

Key responsibilities of the Committee

These include:

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

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

Activities of the Committee

During the year the Committee, among other things:

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

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

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 Group as a whole, may be found in the Sustainability review on page 47.

Nominations Committee attendance

The Committee met twice in the year ended 31 December 2019.

Attendance	Mar	May
John Hirst (Chair)	●	●
Douglas Hurt	●	●
Howard Kerr	●	●
Ian Lobley[1]		●
Stephen Page	●	●
Lucinda Riches	●	●
Alison Wood	●	●

● Attended

1 Appointed Non-Executive Director on 1 May 2019.

By Order of the Board

John Hirst
Chair of the Nominations Committee

27 March 2020

Directors' remuneration report

Introduction by Alison Wood, Chair of the Remuneration Committee

During the year ended 31 December 2019 the Committee comprised:

Alison Wood (Chair)

Douglas Hurt

Stephen Page

Lucinda Riches

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

BSI's Executives continue to drive the commercial success of the organization, so that growth in revenue, profitability and cash reserves can increase BSI's capacity to deliver on its purpose. 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 on challenging targets.

This report sets out performance and reward in 2019 and the policy for 2020 for the Executive Directors.

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

Performance and reward for 2019

In 2019, BSI delivered another strong financial performance achieving underlying organic revenue growth of 4% and maintained an underlying operating margin of 10.6%. In addition, the Group successfully implemented a number of strategic actions, including investment in core systems, which has significantly strengthened both the Group and the NSB to address the opportunities and challenges in implementing the next five-year strategic plan. The Executive Directors' variable remuneration for 2019 reflects their success in achieving the financial and strategic targets set. Further details may be found in the variable pay section on pages 69 and 71.

Maintaining an appropriate balance between annual and longer-term incentives is a key aspect of BSI's remuneration strategy. With no ability to draw on share capital BSI must build its cash reserves in order to invest in the business and contribute to the longer-term strength of the Group to deliver its societal purpose. When reviewing the overall reward of the Executives, particularly the variable remuneration element, the Committee takes into consideration the extent to which the achievement of the rewards under schemes has positively contributed to BSI's resilience in that way.

I am pleased to report that Group profit for the Annual Bonus Plan (GPB) and revenue met the threshold targets set for 2019. In setting the 2019 profit targets, the Remuneration Committee recognized that the Group would need to make a significant investment in Regulatory Services in 2019 to ensure that the business stream could meet client requirements and address the challenges of Brexit by setting up a new notified body in the Netherlands. In addition, the GBP structure was modified to ensure that the scheme had the right balance of Group and business stream/sector KPIs to deliver the one BSI strategy. The targets were also adjusted to reflect the impact of acquisitions and to exclude the impact of IFRS 16.

LTIP awards, intended to provide incentive for growth over a longer time scale, in accordance with the Group's strategic plan, vested at the 30% level for 2019, in line with the thresholds for Group profit for the LTIP (GPL) and revenue targets set in earlier years.

Discretionary decisions made in 2019

The Committee retains discretionary power regarding certain areas of Executive Directors' remuneration. Other than with respect to the determination of GPB, the Committee did not exercise its discretionary power with regard to Executive Director remuneration during 2019. Discretion was made for two newly appointed Executives to receive prorated LTIP awards for the 2019 Award.

Remuneration policy for 2020

The Committee has reviewed the Financial Reporting Council (FRC) UK Corporate Governance Code 2018 as it applies to BSI as a non-UK listed entity. We plan to review our approach to the Executive pension policy and alignment to the wider workforce during 2020 as part of our ongoing benchmarking of Executive total reward and remuneration with the wider external marketplace. Therefore, there have been no revisions to the policy for 2020 and details are set out in the 'Remuneration policy 2020' table on pages 72 and 73.

In keeping with prior years, the 2020 targets set for the Annual Bonus Plan will provide incentive to deliver excellence in execution with the focus on profit achievement over the forthcoming year.

Targets for the LTIP award are intended to provide incentives to the Executive Directors to achieve the significant growth in revenue and profit by 2021 that are set out in the strategic plan. The targets for both schemes will continue to be challenging as the Group focuses on managing risk in the current volatile business environment.

2020 focus

There are three areas of focus in 2020 for the Committee.

First the Committee will continue to progress its review of the wider workforce remuneration strategy to ensure that we monitor progress in gender pay equality and pension provision alignment. We will solicit employee feedback on remuneration from the BSI Pulse Survey and from the BSI Colleague Forum that will be established in 2020.

Second the Committee will review the approach to variable pay to ensure that the balance and structure of short and long-term incentives for the Executive and where applicable the wider workforce are effective in underpinning the execution of the Group's strategy.

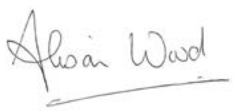
Finally, the Committee will review our approach to the Executive pension policy and alignment to the wider workforce.

Remuneration Committee attendance

The Committee met four times in the year ended 31 December 2019.

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

● Attended



Alison Wood
Chair of the Remuneration Committee

27 March 2020

The Remuneration Committee

The Committee is established by the Board under terms of reference that are annually reviewed, and which were most recently updated in December 2019. A copy of the Committee's terms of reference is available on the BSI Group website.

Membership

During the year ended 31 December 2019 the Committee comprised:

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

When appropriate, John Hirst, Howard Kerr, Craig Smith, the interim Group HR Director and the Group Rewards Director have been invited to the Committee to attend its meetings. Directors do not attend meetings in which their own remuneration is under consideration.

The Committee has access to specialist advice from executive reward consultants when required. Advisors are appointed for specific work, following a review of comparable firms, so that the Committee can be satisfied that their advice is objective and independent. During 2019 no external advice was sought as the previous year's benchmark data from Willis Towers Watson was deemed to be fit for purpose to support the 2019 Executive salary review process.

Key responsibilities of the Committee

These include:

- determining policy for the remuneration of the Group'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;
- approving the design of, and determining targets for, any senior management performance related pay schemes operated by the Group and approving the total annual payments made under such schemes; and
- reviewing Executives' approach to establishing a baseline for wider workforce remuneration strategy.

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

Activities of the Committee

During the year the Committee, among other things:

- agreed salary increases for the Executive Directors and the Executive team;
- reviewed and confirmed the targets for the 2019 Annual Bonus Plan and 2019 LTIP awards
- approved the Directors' remuneration report in the Company's 2018 annual report;
- reviewed and agreed the Chairman's fee to be approved at the AGM;
- considered and agreed payments under the 2019 Group Bonus Plan and the LTIP awards granted in 2017;
- reviewed and agreed the remuneration packages for newly appointed Executives; and
- agreed the treatment of annual bonus and LTIP awards for Executives who would be leaving the Group.

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

Aligning remuneration to the delivery of BSI's strategy

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

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

The LTIP is designed to encourage the Executive Directors to take a longer view, with challenging targets based on future revenue and Group profit objectives determined by the Board in line with the Group's long-term strategy and taken from the 2019–2024 strategic plan. Balancing these near-term and longer-term targets, and the effect each has on the other, helps ensure an appropriate balance of risk.

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

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

Each year the Board sets stretching targets for profit and revenue growth. Payments made to the Executive Directors for 2019 reflect the achievement of the 2019 Annual Bonus Plan targets, shown on page 70, and of the 2017 LTIP targets, also shown on page 70.

2019 remuneration

Single figure total (audited information)

Director	Salaries and fees Year ended 31 Dec 2019 £'000	Salaries and fees Year ended 31 Dec 2018 £'000	Taxable benefits[1] Year ended 31 Dec 2019 £'000	Taxable benefits[1] Year ended 31 Dec 2018 £'000	Pension benefits[2] Year ended 31 Dec 2019 £'000	Pension benefits[2] Year ended 31 Dec 2018 £'000	Variable pay receivable for 2019: Bonus Year ended 31 Dec 2019 £'000	Bonus Year ended 31 Dec 2018 £'000	LTIPs Year ended 31 Dec 2019 £'000	LTIPs Year ended 31 Dec 2018 £'000	Total Year ended 31 Dec 2019 £'000	Total Year ended 31 Dec 2018 £'000
Executives												
Howard Kerr[3]	**486**	458	**27**	25	**—**	—	**211**	200	**73**	360	**797**	1,043
Craig Smith[4]	**359**	337	**8**	26	**—**	—	**123**	120	**42**	206	**532**	689
Scott Steedman[5]	**324**	297	**1**	15	**10**	12	**113**	110	**33**	161	**481**	595
	1,169	1,092	**36**	66	**10**	12	**447**	430	**148**	727	**1,810**	2,327
Chairman												
John Hirst[6]	**165**	9	**—**	—	**—**	—	**—**	—	**—**	—	**165**	9
Sir David Brown[7]	**—**	161	**—**	6	**—**	—	**—**	—	**—**	—	**—**	167
Non-Executives												
Douglas Hurt	**47**	44	**—**	—	**—**	—	**—**	—	**—**	—	**47**	44
Ian Lobley[8]	**28**	—	**—**	—	**—**	—	**—**	—	**—**	—	**28**	—
Stephen Page	**47**	45	**3**	2	**—**	—	**—**	—	**—**	—	**50**	47
Lucinda Riches	**46**	43	**—**	—	**—**	—	**—**	—	**—**	—	**46**	43
Alison Wood	**47**	46	**3**	1	**—**	—	**—**	—	**—**	—	**50**	47
Alicja Lesniak[9]	**—**	11	**—**	—	**—**	—	**—**	—	**—**	—	**—**	11
	380	359	**6**	9	**—**	—	**—**	—	**—**	—	**386**	368
Total	**1,549**	1,451	**42**	75	**10**	12	**447**	430	**148**	727	**2,196**	2,695

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 £65,943 (2018: £61,482) supplement in lieu of pension contributions.

4 Salary includes £40,083 (2018: £38,537) supplement in lieu of pension contributions.

5 Salary includes £28,230 (2018: £26,399) supplement in lieu of pension contributions.

6 Appointed Non-Executive Director on 15 October 2018 and Chairman on 1 January 2019.

7 Retired on 31 December 2018.

8 Appointed Non-Executive Director on 1 May 2019.

9 Retired on 31 March 2018.

Salaries and fees shown above are before any reduction in respect of salary sacrificed pension contributions made by the Company. None of the Directors waived emoluments in respect of the year ended 31 December 2019 (2018: none).

Fixed pay

Base salary during 2019

Per annum base salary	To 28 February 2019	From 1 March 2019
Howard Kerr	£400,000	£425,000
Craig Smith	£300,000	£310,000
Scott Steedman	£275,000	£285,000

Variable pay

Annual bonus for 2019

Annual bonuses for the year ended 31 December 2019 were provided under the Annual Bonus Plan to Howard Kerr, Craig Smith and Scott Steedman, by the Committee, in accordance with the policy set out in the Annual Report 2018 Directors' remuneration report. Actual annual bonus amounts earned are based on salary and dependent upon the achievement of targets for Group profit for the Annual Bonus Plan (GPB), revenue and personal objectives. GPB was defined as 'underlying operating profit before discretionary bonus charges, LTIP charges and all foreign exchange adjustments'. Personal objectives are set and are measured by the Chairman for the Chief Executive and by the Chief Executive for the other Executives; all are reviewed by the Committee.

The Remuneration Committee continued

Variable pay continued

Annual bonus for 2019 continued

The table below sets out the percentage of base salary upon which potential 2019 annual bonuses were based:

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

The target levels set for 2019 were GPB of £72.3m and revenue of £549.2m at budgeted exchange rates. A threshold, representing 90% of both targets, has to be met before any bonus is earned. The total bonus percentage for on-target performance would be doubled if GPB reaches 110% of target. Bonus is earned on a straight-line basis from threshold to target and from 100% to 110% of GPB target if applicable.

Personal objectives for Howard Kerr included building a leadership team and collaborative culture in the new organizational matrix, setting clear strategies for the four business streams, creating key account and sector development programmes, and managing Brexit transition issues. Craig Smith's personal objectives included the completion of the finance transformation project, development of finance business partnering in support of global business streams and establishment of a clear data governance strategy and team. Scott Steedman's personal objectives included development of stronger standards communities and stakeholder groups, establishment of the new services activity in the Knowledge stream and strengthening of the stream leadership team.

Actual GPB at budget exchange rates achieved for 2019 was £72.7m (100.5% of GPB target). This is calculated as UOP at actual exchange rates of £58.3m, adjusted by adding back LTIP charges of £0.0m, bonus charges of £13.7m and amortization of acquired intangibles of £2.6m; and after deducting an exchange adjustment of £1.0m and net discretionary adjustments by the Committee of £0.9m relating to the impact of changes to accounting standards, investment spend, in-year acquisitions and one-off operating costs. Actual revenue achieved for 2019 was £548.1m. This is decreased by a £14.5m exchange adjustment and by £4.2m for in-year acquisitions to £529.4m at 2019 budget exchange rates. The annual bonuses earned in respect of 2019 were:

	Percentage of base salary					
2019 annual bonus payments (audited information)	Actual award based on GPB	Actual award based on on revenue	Actual on-target award based on personal objectives	Payable on achievement of 100% or greater of GPB	Total actual award	Actual award
Howard Kerr	30%	7.16%	10%	2.5%	49.66%	£211,055
Craig Smith	24%	5.73%	8%	2.0%	39.73%	£123,157
Scott Steedman	24%	5.73%	8%	2.0%	39.73%	£113.225

Long Term Incentive Plan vesting in 2019 (audited information)

In 2017, Howard Kerr, Craig Smith and Scott Steedman, as participants in the LTIP, were awarded participation units (PUs), in accordance with the policy set out in the Annual Report 2016 Directors' remuneration report, with the proportion of those PUs vesting depending on the achievement of Group profit for the LTIP (GPL) and revenue targets for the third financial year after award, i.e. for the year ended 31 December 2019. GPL was defined as 'underlying operating profit before LTIP charges and all foreign exchange adjustments'. Each vesting PU would provide £1.00.

For the LTIP awards made in 2017, the target levels for 2019 were GPL of £68.3m (25% PU allocation) and revenue of £534.2m (75% PU Allocation) at 2017 budget exchange rates. Subsequent to the initial award, the targets were adjusted for the acquisition of the Neville Clark Group in 2017, amending target GPL to £69.4m and target revenue to £540.6m. Vesting would be on a predetermined scale beginning with 10% vesting at the minimum performance threshold of GPL of £65.9m and revenue of £513.5m, 50% vesting at the on-target performance and a maximum of 150% vesting at the maximum performance threshold of GPL of £73.4m and revenue of £561.6m. Vesting would be on a straight-line basis between performance levels.

Actual GPL at 2019 budget exchange rates was £61.0m, calculated as UOP at actual exchange rates of £58.3m, adjusted by adding back amortization of acquired intangibles of £2.6m and discretionary adjustments by the Committee of £0.4m relating to one-off operating costs, and deducting an exchange adjustment of £0.3m. Actual revenue for 2019 was £548.1m, with a £14.5m exchange adjustment to £533.6m at 2019 budget exchange rates. On a discretionary basis, the Committee agreed to waive the minimum threshold requirement for GPL and as a result vesting was allowed for the revenue element of the award. Revenue achieved of £533.6m was above threshold and represents 40% pay out of the Revenue measure, which is 75% of the total award, contributing a total pay-out of 30%.. The number of PUs vesting and the payments to be made were:

Long Term Incentive Plan vesting 2019	PUs awarded 2017	Vesting	Payment 2019
Howard Kerr	245,890	30%	£73,202
Craig Smith	140,375	30%	£41,790
Scott Steedman	110,250	30%	£32,822

Long Term Incentive Plan awarded in 2019 (audited information)

In 2019 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 2021. GPL is defined as 'underlying operating profit before LTIP charges, the amortization of acquired intangibles and all foreign exchange adjustments'. The PUs awarded under the LTIP in 2019 were:

2019 LTIP awards	Basis – salary multiple	PUs awarded 2019	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%	320,000	10%	50%	150%	31 December 2021
Craig Smith	50%	180,000	10%	50%	150%	31 December 2021
Scott Steedman	50%	165,000	10%	50%	150%	31 December 2021

Total LTIP awards held

LTIP awards held	Howard Kerr	Craig Smith	Scott Steedman	Vesting at minimum performance at threshold	Vesting at on-target performance	Vesting at maximum performance	End of period (i.e. performance period)
PUs awarded 2019	320,000	180,000	165,000	10%	50%	150%	31 December 2021
PUs awarded 2018	252,925	144,125	125,000	10%	50%	150%	31 December 2020
Total PUs held	572,925	324,125	290,000				

Pension contributions

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

Loss of office payments (audited information)

No payments for loss of office were made in 2019 (2018: £nil).

Payments to past Directors (audited information)

No payments to past Directors were made in 2019 (2018: £nil).

Remuneration of the Chief Executive

Table of historic data (audited information)

	Chief Executive single figure remuneration total £'000	Annual bonus payout against maximum	LTIP vesting rates against maximum
2019	792	49.7%	30.0%
2018	1,043	50.0%	100.0%
2017	1,156	92.2%	100.0%
2016	1,151	98.7%	100.0%
2015	1,119	97.8%	100.0%
2014	765	95.3%	—
2013	596	50.5%	—
2012	576	51.0%	—
2011	792	59.1%	66.6%
2010	706	100.0%	—

Howard Kerr was Chief Executive for each year shown.

2019 remuneration change from 2018

	% change in salary	% change in taxable benefits	% change in bonus
Chief Executive	6%	7%	1.5%
UK employees	2.7%	8%	1.5%

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.

Pay ratio

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option B	32:1	23:1	18:1

Median pay for BSI was £48,594.

Of the following methods, Option B was selected to review pay data to determine the total FTE remuneration of all BSI's UK employees; rank all those employees based on their total FTE remuneration from low to high; and identify the employees whose remuneration places them at the 25th, 50th (median) and 75th percentile points of this ranking.

Methodologies

Option A: Calculating the pay of UK employees in the same way as for the CEO and determining the lower quartile, median and upper quartile staff values from this sample.

Option B: Using gender pay gap data to determine the best equivalents for the quartile and median staff pay levels.

Option C: Using other available pay data to determine the same three statistics.

Directors' remuneration report continued

The Remuneration Committee continued

Executive Directors' Non-Executive Directorships

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

Statement of implementation of Directors' remuneration policy

During 2019, all Directors' remuneration was awarded within the policy set out in the Directors' remuneration report in the Annual Report and financial statements 2018.

Remuneration policy 2020

The Directors' remuneration policy is set out in the table opposite. It applies to remuneration awards made from 1 January 2020 and is set for a period of one year. There is no change from the policy operated in 2019. 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 and purpose. The Committee reviews the policy in advance of the remuneration policy year to ensure it is appropriate and effective in meeting these requirements.

Policy discretion

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

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

Notes:

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

Maximum value	Performance metrics	Changes from 2019 policy
	Not applicable.	
	Not applicable.	
	Not applicable.	
Maximum bonuses for Howard Kerr, Craig Smith and Scott Steedman are 100%, 80% and 80% of base salary, respectively.	Award payments are dependent upon the achievement of targets weighted as follows: as a percentage of base salary, targets are based for Howard Kerr: i) 30% on Group profit for the Annual Bonus Plan (GPB), ii) 10% on revenue, and iii) 10% on personal objectives, plus up to 50% if GPB reaches 110% of target; and for Craig Smith and Scott Steedman: i) 24% on GPB, ii) 8% on revenue, and iii) 8% on personal objectives, plus up to 40% if GPB reaches 110% of target.	
A maximum of 150% of participation units (PUs) may vest depending on target achievement.	PUs are awarded to Executive Directors by the Remuneration Committee. Award payments are dependent upon the achievement of targets weighted as follows: as a percentage of base salary, targets are based: i) 25% on Group profit for the LTIP and ii) 75% on revenue; a proportion of these vest depending on the achievement of Group profit for the LTIP and revenue growth targets for the third financial year after award. Awards made are on a discretionary basis.	

Remuneration policy 2020 continued

Statement of principles for new Executive Director recruitment

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

Policy on notice periods

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

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

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

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

Approach of the Company in setting Non-Executive Director fees

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

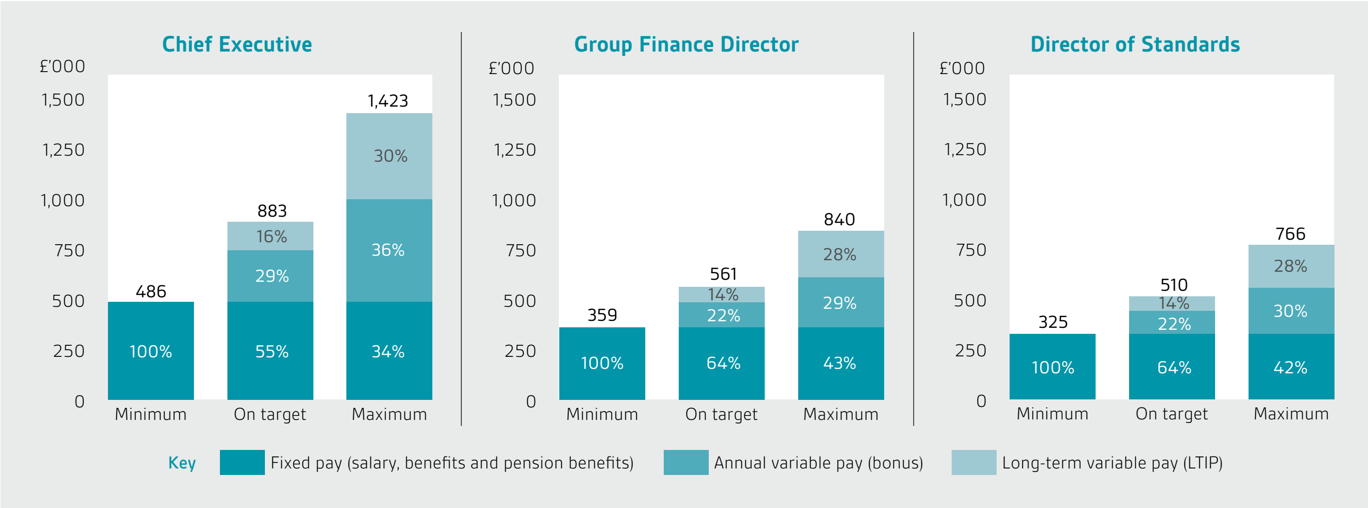
Policy on termination payments

The Group 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 Group at that point in time. Compensation for any outstanding bonus payments is determined by reference to the terms of the individual's current bonus letter. Non-Executive Directors have no right to any termination payments other than in the case of one month's fee paid in lieu of notice. The Board is responsible for any such Non-Executive Director termination arrangements. The Committee, overseen by its Chairman, is responsible for the setting of any termination payments for the Chairman and Executive Directors and it reserves the right to apply discretion as it sees fit in relation to the above.

Illustration of the application of the Directors' remuneration policy for 2020

The charts below provide an illustration of what could be received by each Executive Director for 2020, which is the year of application of the stated remuneration policy:



Notes:

- Minimum means fixed pay only (i.e. base salary, benefits and pension benefits), i.e. below the payment threshold for variable pay awards.
- On target means fixed pay, an award equivalent to 50%, 40% and 40% of base salary to Howard Kerr, Craig Smith and Scott Steedman, respectively, under the Annual Bonus Plan and vesting of 50% of the PUs awarded to each Director under the LTIP.
- Maximum means fixed pay, an award equivalent to 100%, 80% and 80% of base salary to Howard Kerr, Craig Smith and Scott Steedman, respectively, under the Annual Bonus Plan and vesting of 150% of the PUs awarded to each Director under the LTIP.
- For the purpose of this illustration: fixed pay is based on base salary at 31 December 2019 and actual 2019 benefit and pension benefit amounts; annual bonus awards for potential payment with respect to the 2020 financial year are based on base salary at 31 December 2019; and LTIPs are based on the 2018 awards potentially vesting for the performance period ending 31 December 2020.

Consideration of employment conditions elsewhere in the Group

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

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

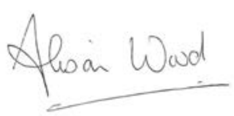
Relative importance of spend on pay

		2019	2018
Employee benefit cost	+14%	**£281.5m**	£247.5m
Revenue	+7%	**£548.1m**	£511.9m
UOP	-6%	**£58.3m**	£61.8m
Headcount	0.89%	**4,827**	4,784

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
Chair of the Remuneration Committee

27 March 2020

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 2019.

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 2019, 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, Business review and Financial review, form part of this report and include:

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

Research and development

The Group has capitalized £0.8m of development costs relating to new training courses and has not expensed any basic research or other development costs.

Corporate governance

The Corporate governance report is set out on pages 54 to 58.

During 2019, BSI complied with the Financial Reporting Council (FRC) UK Corporate Governance Code 2018, where relevant to its constitution and operation as a Royal Charter Company without shareholders.

The Board

The members of the Board are as follows and, except where noted below, all held office throughout the year.

John Hirst (appointed Chairman 1 January 2019)
Howard Kerr
Craig Smith
Scott Steedman
Douglas Hurt
Ian Lobley (appointed 1 May 2019)
Stephen Page
Lucinda Riches
Alison Wood
The Company Secretary is Grainne Brankin.

More information about the Directors can be found on pages 50 and 51.

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

The Company's Bye-law 8 requires Directors to submit themselves for re-election at the next Annual General Meeting following their appointment by the Board as a new Director. In addition, under the Company's Bye-law 9, one-third (rounded down) of the Directors are required to retire by rotation and stand for re-election and therefore Howard Kerr, Stephen Page and Alison Wood will be standing for re-election at the 2020 Annual General Meeting.

Annual General Meeting

The 2020 Annual General Meeting will be held at 4pm on Tuesday 19 May 2020 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 Group's auditors for the year ended 31 December 2019 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, directors' and officers' liability insurance cover in respect of the acts or omissions of its Directors 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.

Section 172 statement

The Board is required to act in accordance with a general set of duties detailed in Section 172 of the UK Companies Act 2006. In the decisions taken during the year ended 31 December 2019, the Directors have acted in the way they consider, in good faith, would be most likely to promote the success of the Company and its continuing reputation for high standards of business conduct, for the benefit of its members as a whole.

Our 2019–2024 strategic plan was designed to have a long-term beneficial impact on the Company and to contribute to its success in reflecting its public interest aims, detailed in the Sustainability review on pages 41 to 47. Our employees are fundamental to the delivery of our plan and we aim to be a responsible employer. The health, safety and wellbeing of our workforce is one of our primary considerations in the way we do business. In 2019 we put in place additional formal processes to engage with our employees.
The intention of the Board is to ensure that management operates the business to the high standards of business conduct and good governance expected and, in doing so, contributes to the delivery of our plan. The intention is to nurture our reputation, through the construction and delivery of our plan, our long-term view and responsible behaviour. As the Board of Directors, our intention is to behave responsibly towards our stakeholders and treat them fairly and equally, so they benefit from the successful delivery of our plan.

Stakeholder engagement

In 2019 the Board adopted a formal process to monitor engagement by the Board and the Group with its stakeholders and regularly review them, including identification and prioritization of key stakeholders. More information about stakeholder engagement can be found on pages 56 and 57.

Employee engagement

The Group communicates and consults with its employees on a wide range of subjects, including those that directly affect them, using email, presentations, intranet, in-house publications and meetings. Management works hard to maintain good relationships with its employees around the world through continual communications and the Group conducts a regular employee engagement survey with the results used to identify opportunities to improve engagement.

To further the commitment of the Board and Group Executive to engage with employees in 2019, the Group established the BSI Colleague Forum. The Forum is comprised of self-nominated representatives and its purpose is to ensure the voice of every colleague can be heard by the Board and Group Executive of BSI. Representatives have the opportunity to discuss their own and their colleagues' views and ideas with members of the Group Executive and Regional Commercial Directors. These views will then be shared directly with the Board and help shape its views.

Further details of the Group's engagement with its employees are set out in the 'Our people' section of the Sustainability review on pages 46 and 47.

Equality and diversity

The Group takes equality and diversity seriously, understanding that 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 strategy. 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. We endeavour to treat each individual fairly in relation to job applications, training, promotion and career development.

Sustainability

A review of the Group's sustainability activities during the year is set out in the Sustainability review on pages 41 to 47. This review also contains disclosures of the Group's greenhouse gas emissions.

Donations

The Company made no political donations during the year (2018: £nil).

Principal risks and uncertainties

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

Financial instruments

Details of the use and materiality of financial instruments are provided in Notes 21 and 26 to the consolidated financial statements.

Directors' interests

Apart from service contracts or Non-Executive Directors' letters of appointment there was no contract with the Group, 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. It is noted that John Hirst is a Non-Executive Director of Marsh Limited, which was engaged as the Group's insurance brokers with effect from 9 December 2019. The decision to engage Marsh Limited was taken on an arm's length basis and John did not take part in that decision.

Post-balance sheet events

In the light of recent developments, we have assessed the potential implications of the coronavirus pandemic for the Group and its Financial Statements. As detailed in the Directors' Report, additional work has been performed to consider the impact of coronavirus on the ongoing business and, while there will be an economic impact, 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 the next twelve months.

At this time, we consider the impact of coronavirus to the Group to be short-term. Quarter 1 2020 revenue and profit are robust but will be adversely affected for the full year. While some business may be lost, much of it will merely be deferred, as it is driven by clients' regulatory or supply chain requirements. Parts of our business are able to operate remotely and our Regulatory Services business stream, in particular, retains a strong order book. Some of our clients may also face credit-related issues but, as stated in the Group's assessment of credit risk (Note 3b), the Group's customer base is large and unrelated and concentration of credit risk with respect to trade receivables is limited.

As a result of the economic impacts of coronavirus, there have been movements in the valuation of the assets held by the UK defined benefit pension scheme, and the discount rates used to value its liabilities. While these impacts have been considerable during recent weeks, they remain short-term volatility in long-term assets and liabilities. We have an agreed schedule of contributions that is reviewed every three years, and actuarial swings in the deficit are taken into consideration at the time of each triennial valuation.

The impact of the coronavirus pandemic has taken place since December 2019 and it is therefore a non-adjusting event. No changes resulting from the impact of coronavirus have been made to the valuation of any assets or liabilities in our 2019 Financial Statements. We have considered the impact of the virus on the judgements made at 31 December on the carrying value of tangible and intangible fixed assets. Given our view that the impact of the virus is likely to be short term, our assessment is that this will not materially affect the carrying value of these assets. The full impact will be reviewed during 2020 and any impairments, provisions or other adjustments will be taken, as required, in the 2020 Financial Statements.

Directors' report continued

Going concern

In recent years, the Group has delivered increasing revenue and stable profits and has a broad portfolio of clients. It ended 2019 with a significant cash reserve and no borrowings. The Board maintains an effective risk management system and has taken reasonable steps to manage the risks faced by the business. In view of the current restrictions being placed on our business activities due to the coronavirus pandemic, we have updated our cash forecasts. Our forecasts assume longer cash collection periods as customers look to conserve cash, an average 24% decline in revenues for the Group as a whole in the second quarter over the existing budget and, given current uncertainty over the duration of the crisis, a conservative recovery in performance until March 2021. The revenue decline is based on a stream by stream assessment, with more significant declines expected in Consulting Services revenues but with greater resilience shown in Regulatory Services revenues given the nature of these services and the current strong forward order book. Our forecasts also reflect the extent of work that may still be performed without access to customer sites, with reference to our recent experience in China and Italy where the spread of the virus is more advanced. They also assume some increase in irrecoverable trade receivables during the crisis and predict that we should not need to resort to external funding in order to continue to operate and satisfy our financial obligations.

Sensitivity analysis has been applied to this forecast and, if revenues were to decline by a further 33% from first quarter levels for the six-month period to September 2020, the Group has defined adequate additional cost mitigation and cash expenditure deferral actions that could be taken before the Group would need to resort to external funding. Such potential actions include a recruitment freeze, further discretionary cost reductions such as travel and subsistence, professional fees, contractor fees, training and promotion and publicity, reducing the use of external resource and deferring capital expenditure and elements of employee remuneration.

As a result, the Directors consider that the Company and its subsidiaries have adequate resources to continue in operational existence for at least the twelve months following the approval of this Annual Report and, accordingly, have adopted the going concern basis in preparing the Company's and the Group's financial statements.

Notwithstanding the above, given the level of uncertainty currently facing the global economy, should conditions further decline from those which we currently foresee to be plausible, we have also engaged in conversations with tax authorities around the world to consider the possibility of delaying payments, and with the trustees of the UK defined benefit pension scheme regarding a temporary suspension of additional funding. While we currently have no borrowings, we have also engaged in conversations with our banks to understand the possibility of access to funding lines, should they prove necessary.

Viability statement

The Directors have considered the ongoing viability of the Group.

Each year, the Directors agree a strategic plan for the business. The 2020 to 2024 plan, prepared in late 2019, was based on the expected economic environment across all our markets. The plan reflected the Group's strategic objectives and initiatives, consistent with the risk appetite of the Group, as agreed by the Board. BSI has a long history of underlying revenue growth and operating profit stability and this plan showed a continuation of these trends.

The plan has been tested and its validity confirmed in scenarios that include severe but plausible changes to the plan assumptions. These scenarios related to lower demand for BSI's products and services and the availability of sufficient cash to satisfy the Group's obligations and undertake the necessary investments to achieve the key performance indicators.

Having recently revisited and updated our forecasts for the next twelve months we have reviewed the remainder of the strategic plan in this context. Each year of the strategic plan beyond 2020 is cash-generative in isolation and actions may be taken, if required, for it to remain so even if 2020 trading is affected by coronavirus such that 2021 trading performance starts from a lower base.

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

By Order of the Board

Grainne Brankin
Company Secretary

27 March 2020

Consolidated financial statements

Parent company financial statements

Independent auditors' report

to the Board of Directors of The British Standards Institution

Report on the audit of the consolidated financial statements

Opinion

In our opinion, The British Standards Institution's consolidated financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated balance sheet as at 31 December 2019; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended; and the notes to the consolidated financial statements, which include a description of the significant accounting policies.

Basis for opinion

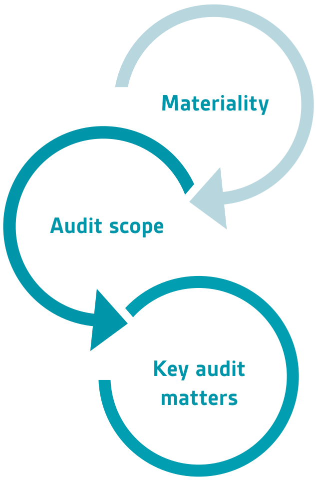
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit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

Independence

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

Our audit approach

Overview



- Overall Group materiality: £2.6m (2018: £2.7m), based on 5% of profit before tax.

- We performed an audit of the complete financial information of the BSI Standards Limited, BSI Assurance UK Limited and BSI Group America, Inc. operations due to their financial significance to the Group, together with the global head office Group function.
- We performed specified audit procedures at six further reporting locations with the Group engagement team directly performing these audit procedures over BSI Cybersecurity and Information Resilience (UK) Ltd in the UK, BSI Cybersecurity and Information Resilience (Ireland) Ltd in Ireland, BSI Services and Solutions East Inc. and BSI Services and Solutions (NYC) Inc., AppSec Consulting Inc in the USA. and BSI Group Deutschland GmbH (work performed remotely). Local teams were instructed to perform work over the Dubai branch of BSI Management Systems Ltd and BSI Management Systems Certification (Beijing) Co. Ltd and BSI Certification and Technical Training (Beijing) Limited in China.
- The components over which we performed our audit work, considered together with the corporate function accounted for 65.8% of the Group's external revenues and 79.5% of the Group's profit before tax.

- Valuation of defined benefit pension scheme liabilities
- Acquisition accounting of AppSec Consulting, Inc.
- Consideration of goodwill and acquired intangible assets for impairment
- Implementation of IFRS 16

The scope of our audit

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

Report on the audit of the group financial statements continued

Our audit approach continued

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of defined benefit pension scheme liabilities The Group has defined benefit pension plans with net retirement benefit obligation liabilities of £59.6m, which are significant in the context of the overall balance sheet of the Group. The valuation of the pension liabilities requires significant levels of judgement and technical expertise in applying appropriate assumptions. The key assumptions include discount rates, RPI and CPI inflation rates and mortality rates. The Directors employ actuarial experts to assist them in identifying appropriate assumptions and valuing the liabilities in the scheme. Given the magnitude of the pension liabilities, changes in assumptions or valuations could potentially result in material changes to the net position recognised.	To address this risk, we have designed and performed procedures over the report issued to the Directors by the actuary. We have engaged our actuarial experts to assist in the assessment of the methodology and assumptions underpinning the pension liabilities. The following procedures have been performed: • Review of the methodology applied by the actuary assessing its appropriateness and consistency with prior periods. • Assessing the reasonableness of the assumptions supporting the discount rates, mortality and inflation rates by comparing them to our independently developed benchmarks. • Rollforward of the liabilities also performed to ensure the reasonableness of the impact of changes in the defined assumptions during the period. • Testing over the census data of members. The assumptions, methodologies and valuations subject to our procedures were supported by the work performed.
Acquisition accounting of AppSec Consulting, Inc. The Group acquired 100% of the share capital of AppSec Consulting, Inc. ("AppSec") on 2 April 2019 for a total consideration of USD10.6m (£8.1m). The accounting for an acquisition is inherently judgemental due to the reliance on future projections and the assumptions made in identifying and valuing the intangible assets acquired, which are disclosed on page 114 and 115 within Note 15 to the financial statements. The Directors employed independent valuation experts to assist them in identifying the intangible assets acquired on acquisition of AppSec. There is a high level of estimation and judgement employed in determining the intangible assets and changes in the assumptions could have a material impact on the valuation of the intangible assets.	To address this risk, we have performed procedures over the valuation report issued to the Directors by their independent valuation experts. We have engaged our own valuation experts to assist in assessing and challenging the assumptions made in relation to the valuation of the intangible assets. We have assessed the reasonableness of the assumptions around the overall Weighted Average Cost of Capital (WACC) and associated discount rates applied to the working capital and intangible assets against our independently developed benchmarks. We have assessed the approach to the Contributary Asset Charges (CACs) identified in calculating the customer relationships intangible asset. We have tested the mathematical accuracy of the models used and underlying calculations. We have also validated the input data to the underlying agreements and contracts. We challenged management on the assumptions made around future projections, and on the completeness of identification of the intangible assets. From the work performed we have concluded that the valuation of the acquired intangible assets has been determined using an appropriate methodology and the assumptions made appear to be reasonable.

Independent auditors' report continued

to the Board of Directors of The British Standards Institution

Report on the audit of the group financial statements continued

Our audit approach continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Valuation of goodwill and acquired intangible assets The Group had £71.9m of goodwill as at 31 December 2019 (31 December 2018: £67.5m) and £16.3m of acquired intangibles as at 31 December 2019 (31 December 2018: £16.0m), for which an annual impairment review is required. The carrying values of these assets are contingent upon future cash flows which may be impacted by developments in the market and the business performing below expectations. We consider this to be a key audit matter given the magnitude of the relevant balances and the significant judgement and estimation involved in the impairment assessments of these assets. The key assumptions in management's cash flow projections are: short to medium term revenue growth and profitability, long term growth rate and the discount rate. Changes in these assumptions could potentially lead to an impairment in the carrying value of these assets.	To address this risk, we have designed and performed a number of audit procedures over the impairment assessments performed by management. We tested the reasonableness of management's key assumptions and the sensitivity through the following procedures: • Performed an assessment of the achievability of the revenue and margin forecasts, including an evaluation of the assumptions in management's forecasts including understanding the following: – the opportunities for growth in the relevant markets; – comparison of the previous track record compared to the forecast results; – comparison to results achieved for the relevant revenue streams in comparable markets; and – understanding and verification of the key changes in strategies/ operating models which are expected to drive growth. • We have utilised our valuations experts to evaluate the discount rates and long-term growth forecasts. In performing these assessments, the audit team focused on applying an appropriate level of professional scepticism, when challenging the assumptions presented by management through obtaining corroborating information both independently and through our audit work and the impact of any contradictory evidence. We focused on those cash generating units (CGUs) where we believed there was the most significant risk of impairment and in a number of cases we received updated assessments from management as a result of initial challenges raised. Based on the work performed, we found that the underlying financial information and assumptions used were not unreasonable. We have also assessed the disclosures made in the financial statements, including sensitivity analysis and the reasonably possible downsides. Following our work, management has extended the sensitivity disclosures to provide further information on the sensitivity of key assumptions within its assessment for the four CGUs that are at risk of impairment as a result of reasonably possible changes in assumptions.
Implementation of IFRS 16 Management has implemented IFRS 16, "Leases" which applies for the first time for the year ended 31 December 2019. The right-of-use assets and lease liabilities recognized on transition as at 1 January 2019 was £34.4m and £47.4m respectively having a net balance sheet impact of £13m including all related adjustments; this is disclosed on page 116 Note 16, and page 127 and Note 28 to the financial statements. These balances are individually significant in the context of the assets and liabilities of the Group. There is a high level of judgement and estimation in determining the valuation of the assets and liabilities and new specific disclosure requirements of the new standard.	To address this risk, we have designed and performed audit procedures over the calculations prepared by management. We have tested the mathematical accuracy of the underlying calculations. We have challenged management on the key assumptions including the useful lives of the assets and the incremental borrowing rates applied within the calculations. We have performed testing on the underlying lease data used in the calculation by agreeing to supporting contracts and agreements and also considered the treatment of lease incentives. In addition, we have understood the process employed by management to ensure the completeness of the lease population identified. The policies and methodology applied by the client, including the practical expedients taken advantage of have been assessed to ensure they have been appropriately applied. We have also reviewed the disclosures presented within the financial statements to ensure they are in compliance with the standard. Finally, we have also considered the associated tax implications and provided challenge to management to ensure these were appropriately reflected within the accounts. From the evidence obtained we found the assumptions, methodology and completeness to be appropriate and supported by the evidence obtained.

Key audit matter	How our audit addressed the key audit matter
Assessment of the implications of COVID-19 and assessment of the Going Concern assumption in light of the potential associated cash flow challenges In light of recent developments management has performed additional work to consider the impact of COVID-19 and in particular with respect to their going concern and viability assessments for the Group. In performing this assessment management has modelled a downside scenario which includes an average monthly revenue reduction of 24% through Q2 (13% reduction through the full year) compared to budget. Management also assumes a significant increase in their cash collection period and an increased default rate of 2%. The Group has set up a sub-committee of the Board who are responsible for reviewing its response to COVID-19 with respect to the 2019 annual report and accounts. Management has identified a number of mitigations, which include a recruitment freeze, further discretionary cost reductions such as travel and subsistence, professional fees, contractor fees, training and promotion and publicity, reducing the use of external resource and deferring capital expenditure and elements of employee remuneration. In considering all aspects of their position, management has also engaged in conversations with tax authorities around the world to consider the possibility of delaying payments to understand the options available to the Group. In addition to this management has engaged with the trustees of the UK Defined Benefit Pension Scheme to discuss temporarily stopping the additional pension funding through 2020. The Group currently does not have access to debt facilities; however, management has also engaged in conversations with its banks to understand the possibility of access to funding should it be required. Based on the review performed, as discussed with their sub-committee, management considers the Group to be able to prepare their accounts on a going concern basis, albeit with additional disclosures around the risks faced by the business due to the uncertainty over the extent and duration of the impact of COVID-19. These disclosures have been included on pages 77 and 78 of the annual report. In forming our opinion on the financial statements, we have considered the directors' conclusion that the Group is a Going Concern.	In assessing the Directors' conclusion that the Group is a Going Concern; we performed the following procedures: • agreed the underlying cash flow projections to management approved forecasts, assessed how these forecasts are compiled, and assessed the accuracy of management's historical forecasts; • evaluated management assumptions regarding the revenue and associated EBITDA reductions associated with COVID-19, together with assumptions regarding cash collections from customers; • evaluated the assumptions in respect of the costs that could be avoided in a period of significant revenue reduction; • assessed the impact of the mitigating factors available to management in including the ability to restrict capital expenditure and the associated cash impact; • checked the mathematical accuracy of the spreadsheet used to model future financial performance; • considered the adequacy of the disclosures included by management within the annual report, and considered the consistency with other statements and disclosures; and • considered the impact of our own, more pessimistic scenarios, regarding both profitability and cash collections. We have further sensitised management's models, considering severe however plausible changes to their base assumptions. In our worst-case scenario, we have assumed an average monthly revenue reduction of 43% through Q2 (26% reduction through the full year) compared to budget. We have also further elongated the cash collection assumptions. In addition to this we have assumed a further increase to the rate of default of 15%. Given the level of sensitivity applied, we have also taken into account some of the cost mitigations available to the Group, such as deferral of elements of employee remuneration to 2021, reduction in tax payments as a result of lower profits and reduction of capex spend. Based on the further sensitivities performed and the cost mitigations available to the Group we have concurred with the directors' assessment that there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern. We consider the disclosures included within the accounts related to this to be adequate.

How we tailored the audit scope

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

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

We also brought smaller components into scope for specified procedures to gain comfort over specific accounts; these were BSI Cybersecurity and Information Resilience (UK) Ltd in the UK, BSI Cybersecurity and Information Resilience (Ireland) Ltd in Ireland, BSI Services and Solutions East Inc. BSI Services and Solutions (NYC) Inc., and AppSec Consulting Inc in the USA, the Dubai branch of BSI Management Systems Ltd, BSI Management Systems Certification (Beijing) Co. Ltd and BSI Certification and Technical Training (Beijing) Limited in China and BSI Group Deutschland GmbH (where work was performed remotely by the group team).

Independent auditors' report continued

to the Board of Directors of The British Standards Institution

Report on the audit of the group financial statements continued

Our audit approach continued

Materiality

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

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

Overall Group materiality	£2.6m (2018: £2.7m).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for profit-oriented entities, in the absence of indicators that an alternative benchmark would be appropriate. We believe that the profit before tax provides us with a consistent year on year basis for determining materiality. Forecast profit before tax was used as a benchmark for materiality calculated at the planning stage and communicated to the Audit Committee in November 2019. The benchmark applied to determine materiality has remained constant with prior year being 5% of profit before tax. We have concluded, together with the Audit Committee, that it is appropriate to apply a materiality benchmark consistent with that which would be applicable for a listed group.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £120,000 and £1,980,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £260,000 (2018: £270,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Report on the audit of the group financial statements continued

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

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

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

- The Directors' confirmation on page 27 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 78 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

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

- The statement given by the Directors, on page 59, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the Board of Directors to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group obtained in the course of performing our audit.
- The section of the Annual Report on page 61 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Independent auditors' report continued

to the Board of Directors of The British Standards Institution

Report on the audit of the group financial statements continued

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 59, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Board of Directors of the Group as a body to enable the Board to discharge its stewardship and fiduciary responsibilities under the terms of the Royal Charter and Bye-laws and where applicable and possible the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Other matter

We have reported separately on the parent company financial statements of The British Standards Institution for the year ended 31 December 2019 and on the information in the Directors' Remuneration Report that is described as having been audited.

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford

27 March 2020

Consolidated income statement

for the year ended 31 December 2019

	Note	2019 £m	2018* £m
Revenue	5, 6	**548.1**	511.9
Cost of sales		**(294.4)**	(271.7)
Gross profit		**253.7**	240.2
Selling and distribution expenses		**(71.5)**	(64.9)**
Administrative expenses		**(123.9)**	(113.5)**
Operating profit before exceptional costs	5	**58.3**	61.8
Exceptional operating costs	7	**(3.6)**	(5.3)
Operating profit	7	**54.7**	56.5
Finance income	11	**0.4**	0.5
Finance costs	11	**(3.9)**	(1.9)
Profit before income tax		**51.2**	55.1
Income tax expense	12	**(14.6)**	(16.1)
Profit for the year		**36.6**	39.0

* The Group has adopted IFRS 16, "Leases" retrospectively from 1 January 2019, but not restated comparatives for the 2018 reporting period, as permitted under the transition provisions in the standard. See Note 28.

** £3.3m has been reclassified from 'Administrative expenses' to 'Selling and distribution expenses' to correctly reflect the commercial structure implemented in 2018.

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

The accompanying notes on pages 92 to 133 form an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Note	2019 £m	2018* £m
Profit for the year		**36.6**	39.0
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Re-measurements of post-employment benefit obligations, net of taxes	23b	**2.7**	7.4
		2.7	7.4
Items that may be subsequently reclassified to profit or loss			
Net investment and cash flow hedges		**—**	0.1
Currency translation differences		**(4.5)**	1.9
		(4.5)	2.0
Other comprehensive (loss)/profit for the year, net of taxes		**(1.8)**	9.4
Total comprehensive income for the year		**34.8**	48.4

* The Group has adopted IFRS 16, "Leases" retrospectively from 1 January 2019, but not restated comparatives for the 2018 reporting period, as permitted under the transition provisions in the standard. See Note 28.

The accompanying notes on pages 92 to 133 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Note	Retained earnings £m	Translation reserve £m	Total £m
At 1 January 2018		124.4	5.5	129.9
Profit for the year		39.0	—	39.0
Re-measurements of post-employment benefit obligations, net of taxes	23b	7.4	—	7.4
Net investment and cash flow hedges		—	0.1	0.1
Currency translation differences		—	1.9	1.9
At 31 December 2018*		170.8	7.5	178.3
At 1 January 2019*		**170.8**	**7.5**	**178.3**
Impact of change in accounting policy	28	**(5.7)**	**—**	**(5.7)**
Adjusted balance at 1 January 2019*		**165.1**	**7.5**	**172.6**
Profit for the year		**36.6**	**—**	**36.6**
Re-measurements of post-employment benefit obligations, net of taxes	23b	**2.7**	**—**	**2.7**
Currency translation differences		**—**	**(4.5)**	**(4.5)**
At 31 December 2019		**204.4**	**3.0**	**207.4**

* The Group has adopted IFRS 16, "Leases" retrospectively from 1 January 2019, but not restated comparatives for the 2018 reporting period, as permitted under the transition provisions in the standard. See Note 28.

The accompanying notes on pages 92 to 133 form an integral part of the consolidated financial statements.

Retained earnings

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

Translation reserve

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

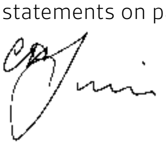
Consolidated balance sheet
as at 31 December 2019

	Note	2019 £m	2018* £m
Assets			
Non-current assets			
Property, plant and equipment	13	**26.6**	26.3
Goodwill	14	**71.9**	67.5
Intangible assets	14	**35.5**	28.0
Right-of-use assets	16	**37.8**	—
Deferred tax assets	17	**16.4**	18.7**
Trade and other receivables	18	**8.3**	7.1
Contract costs	19	**15.6**	14.9
Total non-current assets		**212.1**	162.5
Current assets			
Inventories	20	**0.1**	0.1
Trade and other receivables	18	**138.6**	126.2
Derivative financial instruments	21	**—**	0.1
Current tax assets		**5.5**	5.9
Fixed-term deposits	22	**15.0**	15.0
Cash and cash equivalents	22	**70.1**	71.8
Total current assets		**229.3**	219.1
Total assets		**441.4**	381.6
Liabilities			
Non-current liabilities			
Deferred tax liabilities	17	**(6.3)**	(5.3)**
Retirement benefit obligations	23	**(59.6)**	(73.6)
Provisions for liabilities and charges	24	**(2.4)**	(2.3)
Trade and other payables	25	**(10.3)**	(9.4)
Lease liabilities	16	**(39.1)**	—
Total non-current liabilities		**(117.7)**	(90.6)
Current liabilities			
Trade and other payables	25	**(100.3)**	(107.3)
Lease liabilities	16	**(11.3)**	—
Current tax payables		**(4.4)**	(4.8)
Provisions for liabilities and charges	24	**(0.3)**	(0.6)
Total current liabilities		**(116.3)**	(112.7)
Total liabilities		**(234.0)**	(203.3)
Net assets		**207.4**	178.3
Reserves			
Retained earnings		**204.4**	170.8
Translation reserve		**3.0**	7.5
Total reserves		**207.4**	178.3

* The Group has adopted IFRS 16, "Leases" retrospectively from 1 January 2019, but not restated comparatives for the 2018 reporting period, as permitted under the transition provisions in the standard. See Note 28.

** The Group has restated the 2018 deferred tax assets and deferred tax liabilities to offset balances within the same tax jurisdiction. Refer to Note 17.

The accompanying notes on pages 92 to 133 form an integral part of the consolidated financial statements. The consolidated financial statements on pages 87 to 91 were approved by the Board of Directors on 27 March 2020 and were signed on its behalf by:



Craig Smith FCCA
Group Finance Director

27 March 2020

Consolidated statement of cash flows

for the year ended 31 December 2019

	Note	2019 £m	2018* £m
Cash flows from operating activities			
Profit before income tax		**51.2**	55.1
Adjustments for:			
– Depreciation of property, plant and equipment	7	**5.7**	5.2
– Loss on disposal of tangible assets	7	**0.5**	0.1
– Amortization of intangible assets	7	**6.7**	7.3
– Impairment of intangible assets	7	**0.2**	0.4
– Depreciation of right-of-use assets	7	**8.6**	—
– Loss on disposal of intangible assets	7	**—**	0.1
– Loss allowance on trade receivables	7	**0.3**	1.0
– Bad debts written off to profit or loss directly	7	**0.7**	—
– Finance income	11	**(0.4)**	(0.5)
– Finance costs	11	**3.9**	1.9
– Net capitalization of contract costs	19	**(1.1)**	(2.0)
– Retirement benefit charges	23b	**1.1**	3.2
Changes in working capital (excluding the exchange differences on consolidation):			
– Decrease in inventories		**—**	0.1
– Increase in trade and other receivables		**(17.1)**	(10.6)
– Decrease/(increase) in derivative financial instrument asset		**0.1**	(0.1)
– Increase in trade and other payables		**1.8**	1.9
– (Decrease)/increase in provisions and other liabilities		**(0.3)**	0.7
Retirement benefit payments	23b	**(13.7)**	(13.7)
Cash generated from operations		**48.2**	50.1
Interest received		**0.4**	0.5
Interest elements of lease payments	16	**(2.2)**	—
Income tax paid		**(11.8)**	(20.6)
Net cash generated from operating activities		**34.6**	30.0
Cash flows from investing activities			
Purchases of property, plant and equipment	13	**(6.6)**	(5.3)
Purchases of intangible assets	14	**(11.4)**	(5.6)
Purchase of fixed-term deposits	22a	**—**	(5.0)
Acquisition of subsidiaries, net of cash acquired	15	**(7.6)**	(0.6)
Net cash used in investing activities		**(25.6)**	(16.5)
Cash flow from financing activity			
Principal elements of lease payments	16	**(8.7)**	—
Net cash used in financing activity		**(8.7)**	—
Net increase in cash and cash equivalents		**0.3**	13.5
Opening cash and cash equivalents		**71.8**	57.8
Exchange (loss)/gain on cash and cash equivalents		**(2.0)**	0.5
Closing cash and cash equivalents	22b	**70.1**	71.8

* The Group has adopted IFRS 16, "Leases" retrospectively from 1 January 2019, but not restated comparatives for the 2018 reporting period, as permitted under the transition provisions in the standard. See Note 28.

The accompanying notes on pages 92 to 133 form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2019

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 services.

The consolidated financial statements were approved by the Board of Directors on 27 March 2020.

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

a. Basis of preparation
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

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

b. Changes in accounting policy and disclosures
i. New standards, amendments and interpretations adopted by the Group
The Group has applied IFRS 16, "Leases" using the retrospective method, with the cumulative effect of initial application recognized on 1 January 2019. The details of accounting policies under this new standard are disclosed in Note 2(z) and the impact of related changes is disclosed in Note 28.

IFRIC 23, "Uncertainty over Income Tax Treatments" became effective on 1 January 2019. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing reviews, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Group's existing accounting policy for other uncertain income tax treatments is consistent with the interpretation and did not have an impact on the consolidated financial statements of the Group.

A number of amendments to standards are also effective from 1 January 2019 but they do not have a significant effect on the consolidated financial statements of the Group.

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

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

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

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

Acquisition related costs are expensed as incurred.

2. Principal accounting policies continued

c. Basis of consolidation continued

i. Subsidiaries continued

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

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

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

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

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

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

iii. Disposal of subsidiaries

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

d. Segment reporting

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

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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

2. Principal accounting policies continued

f. Property, plant and equipment continued

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 employee costs incurred on software development.

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

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

iii. Acquired intangible assets

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

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

2. Principal accounting policies continued

g. Intangible assets continued

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

i. Inventories

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

j. Financial assets

i. 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 are acquired. Management determines the classification of its financial assets at initial recognition.

i. Financial assets at fair value through profit or loss

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

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for assets with maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'fixed-term deposits' and 'cash and cash equivalents' in the balance sheet (Notes 18 and 22).

ii. Recognition and measurement

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

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

k. Impairment of financial assets

The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

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

l. Offsetting financial instruments

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

m. Derivative financial instruments and hedging activities

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

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

2. Principal accounting policies continued

m. Derivative financial instruments and hedging activities continued

The Group designates its derivatives as either:

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

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

iii. hedges of a net investment in a foreign operation (net investment hedge).

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 21. 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.

i. 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.

ii. 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 is reported in equity is immediately transferred to the income statement.

n. Trade receivables

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

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

o. Fixed-term deposits

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

p. Cash and cash equivalents

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

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

q. Trade payables

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

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

2. Principal accounting policies continued

r. Current and deferred income tax

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

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

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

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

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

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

s. Provision for liabilities and charges

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

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

t. Employee benefits

i. Termination benefits

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

ii. Bonus plans

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

iii. Long Term Incentive Plan

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

u. Retirement benefit obligations

i. Defined benefit pension schemes

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

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

The valuation of the Group's net obligation is performed by an independent qualified actuary as determined by the Trustees. Pension scheme assets are measured using market values for quoted assets. The MetLife Annuity Policy asset is valued at an actuarial estimate using the assumptions shown in Note 23b. 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

2. Principal accounting policies continued

u. Retirement benefit obligations continued

i. Defined benefit pension schemes continued

The income statement charge is split between an operating charge and a net finance charge. The operating charge relates to administration costs of operating the scheme. The net finance charge relates to the unwinding of the discount applied to the liabilities of the scheme offset by the expected return on the assets of the scheme using that same discount rate, based on conditions prevailing at the start of the year.

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

ii. Defined contribution pension schemes

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

v. Revenue

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

For detailed description of the revenue by activity and the associated recognition principles, see Note 6.

w. Incremental costs of obtaining contracts

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

x. Exceptional items

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

y. Borrowing costs

Borrowing costs are recognized as an expense when incurred.

z. Leases

Until the end of the 2018 financial year, leases of properties, motor vehicles and other equipment are classified as either finance leases or operating 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.

Leases, in which 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.

From 1 January 2019, each lease is recognized as a right-of-use asset with a corresponding liability for the full lease term at the date at which the leased asset is available for use by the Group.

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes right-of-use assets representing the right to use of the underlying assets and lease liabilities to make lease payments.

i. Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease, which is the date the underlying asset is available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in the section 'Impairment of non-financial assets' in Note 2(h).

2. Principal accounting policies continued

z. Leases continued

ii. Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of the lease payments to be made over the lease term. The lease liabilities include the present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (for example, changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

iii. Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

iv. Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases, being those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option. The Group also applies the recognition exemption to leases of which the underlying asset is of low value, comprising assets below the Group's capitalization threshold. Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

aa. Other income

Interest income

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

3. Financial risk management

Financial risk factors

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

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 material 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

3. Financial risk management continued

Financial risk factors continued

a. Market risk – foreign exchange risk continued

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

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

Currency	2019 Year-end exchange rate	Three-year average exchange rate movement*	Average absolute exchange rate movement**	Adverse impact on operating profit of 10% rate movement
Australian Dollar	**1.88**	**1%**	**5%**	**0.1**
Chinese Renminbi	**9.17**	**(0)%**	**1%**	**0.2**
Euro	**1.17**	**(2)%**	**3%**	**0.6**
Japanese Yen	**143**	**(1)%**	**2%**	**0.2**
US Dollar	**1.31**	**(1)%**	**3%**	**1.0**

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

** These movements indicate the absolute average exchange rate movement over the last three years to indicate volatility, whether positive or negative.

A similar strengthening of 10% in the British Pound Sterling against all of the currencies in which the Group has exposure would result in an adverse operating profit impact of £2.5m.

b. Credit risk

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

	2019 £m	2018 £m
Cash and cash equivalents and fixed-term deposits (Note 22)	**85.1**	86.8
Trade receivables (Note 18)	**90.9**	83.8
Other receivables (Note 18)	**56.0**	49.5
Total credit risk	**232.0**	220.1

i. Risk management

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

Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. New customers are reviewed for creditworthiness with credit terms amended as appropriate. The majority of the Group's trade receivables are due for payment within 30–60 days. Concentrations of credit risk with respect to trade receivables are limited as the Group's customer base is large and unrelated, and, where appropriate, individual accounts receivable are provided against. Due to this, management believes there is no further credit risk provision required in excess of the normal loss allowance on trade receivables.

3. Financial risk management continued

Financial risk factors continued

b. Credit risk continued

ii. Impairment of financial assets

The Group's trade receivables arising from all revenue are subject to the expected credit loss model. While cash and cash equivalents and other contract assets are also subject to the impairment requirements of IFRS 9, the identified impairment loss is immaterial. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of trade receivables over a period of 36 months to 31 December 2019 or 31 December 2018, respectively, and the corresponding historical credit losses experienced within these periods. The historical loss rates are adjusted to reflect current and forward-looking information on economic factors affecting the ability of the customers to settle the receivables. On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for trade receivables (Note 18):

At 31 December 2019	**Current**	**More than 30 days past due**	**More than 90 days past due**	**More than 150 days past due**	**Total**
Expected loss rate	**0.2%**	**1.0%**	**7%**	**30%**	**—**
Gross carrying amount – trade receivables (£m)	**68.8**	**13.6**	**4.4**	**6.6**	**93.4**
Loss allowance (£m)	**0.1**	**0.1**	**0.3**	**2.0**	**2.5**

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

The reconciliation of the closing loss allowance on trade receivables to the opening loss allowance is shown in Note 18.

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

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 undrawn committed borrowing facilities at all times.

Surplus cash held by the operating entities over and above the balances required for working capital management is transferred to Group Treasury. Group Treasury invests surplus cash in interest-bearing current accounts, term deposits and money market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the Group held no money market funds but held other liquid assets of £85.1m 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 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.

Notes to the consolidated financial statements continued
for the year ended 31 December 2019

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 2019 and 2018.

At 31 December 2019	**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	**70.4**	**2.1**	**0.1**	**8.1**
Lease liabilities	**11.2**	**11.6**	**21.3**	**13.9**

At 31 December 2018	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Trade and other payables excluding deferred income	75.4	1.6	0.9	6.9

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. Impairment testing requires management to judge whether the carrying value of assets can be supported by value-in-use calculations, based on the net present value of future cash flows that they generate. Calculating the net present value of the future cash flows requires estimates to be made in respect of uncertain matters including management's expectations of:

- growth in adjusted EBITDA, calculated as operating profit before depreciation and amortization, including an allocation of corporate overheads;
- timing and amount of future capital expenditure;
- long-term growth rates; and
- appropriate discount rates to reflect the risks involved.

Management prepares five-year forecasts for the Group's operations, which are used to estimate the value in use of the Group's cash-generating units (CGUs). A long-term growth rate into perpetuity has been determined based on average growth rates of the past ten years for the countries in which the CGUs operate, obtained from the International Monetary Fund's World Economic Outlook Database. Further details of key assumptions and a sensitivity analysis are disclosed in Note 14.

b. Deferred tax assets

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

The deferred tax assets recognized and not recognized are detailed in Note 17.

4. Critical accounting estimates and judgements continued

c. 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 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 principal assumptions and a sensitivity analysis are detailed in Note 23b.

d. Incremental costs of obtaining contracts

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

The incremental costs of obtaining contracts are disclosed in Note 19.

e. Determining the lease term of contracts with extension and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to extend or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the extension or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to extend or to terminate (for example, construction of significant leasehold improvements or significant customization to the leased asset). Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

f. Leases – estimating the incremental borrowing rate

Where the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

To estimate the IBR, the Group obtains from HSBC or other local banks indicative borrowing rates on hypothetical borrowing transactions. The amount to be borrowed in each case would be based on the total undiscounted future cash flows under a lease, in the same currency as required by the lease agreement, with a repayment profile that mirrors the timing of the expected lease payments. The borrowing would be without any security and backed up only by the strength of the individual entity's latest available financial statements (or management accounts if the local entity does not have statutory reporting obligation). Once decided, the IBR will remain unchanged unless there are modifications in lease terms or changes in the assessment of an option to purchase the underlying asset.

5. Segment information

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

The business streams reported are:

- Knowledge – comprises Standards Development, Services and Information Solution businesses.
- Assurance Services – comprises Systems Certification, Product Certification and Training businesses.
- Regulatory Services – comprises Systems Certification and Product Certification into the Medical Devices industry.
- Consulting Services – comprises two businesses, an Environment, Health, Safety, Sustainability and Security (EH3S) consultancy and a Cyber Security and Information Resilience (CSIR) consultancy.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

5. Segment information continued

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

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

The segment information provided to the Board for the reportable segments for the years ended 31 December 2019 and 31 December 2018 is as follows:

2019	**Knowledge £m**	**Assurance Services £m**	**Regulatory Services £m**	**Consulting Services £m**	**Governance/ support functions £m**	**Total £m**
Revenue	**66.5**	**283.0**	**119.4**	**79.2**	**—**	**548.1**
Operating profit before exceptional costs	**32.0**	**79.5**	**45.3**	**13.8**	**(112.3)**	**58.3**
Depreciation and amortization	**(0.9)**	**(3.1)**	**(0.7)**	**(0.4)**	**(15.9)**	**(21.0)**
Finance income	**—**	**—**	**—**	**—**	**0.4**	**0.4**
Finance costs	**—**	**—**	**—**	**—**	**(3.9)**	**(3.9)**
Income tax expense	**—**	**—**	**—**	**—**	**(15.3)**	**(15.3)**

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

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

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

	2019 £m	2018 £m
Operating profit before exceptional costs	**58.3**	61.8
Acquisition costs (Note 7)	**(2.3)**	(1.9)
Restructuring and reorganization (Note 7)	**(1.3)**	(0.9)
UK defined benefit plan – GMP adjustment (Note 7)	**—**	(2.5)
Finance income	**0.4**	0.5
Finance costs	**(3.9)**	(1.9)
Profit before income tax	**51.2**	55.1

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 (2018: none).

6. Revenue

a. Nature of goods and services

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

i. Knowledge

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

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

- Document revenue
  Document revenue originates from the sale of publications in hard and/or soft copy. Revenue is recognized when control of the goods passes to the customer.

- Subscription revenue
  Subscription revenue mainly derives from providing access to BSI's intellectual property and support services, during the subscription period, e.g. BSI's information services, access to published standards information, newsletters, advisory and support services, discounts on products and invitations to events and seminars.

  Where there is an ongoing performance obligation for BSI to maintain the intellectual property being accessed, e.g. to keep it up to date and maintain its value to the client, revenue is recognized over the duration of the subscription period. Where there are no further performance obligations for BSI after granting a licence, revenue is recognized at the time the licence is granted.

- Copyright and royalties
  Copyright revenue relates to the grant of a licence to use Knowledge intellectual property over the licence period e.g. to use all or part of a specific publication in a client document. Copyright revenues are recognized at the time the right-to-use licence is granted. Royalty revenue derives from the grant of licences allowing access to Knowledge intellectual property based on client usage. Revenue is recognized on the basis of usage or over the licence period depending on the contract.

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

ii. Assurance Services

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

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

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

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

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

Product testing and certification

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

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

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

6. Revenue continued

a. Nature of goods and services continued

iii. Regulatory Services

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

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

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

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

iv. Consulting Services

The Group's Consulting Services business stream comprises two businesses, an Environment, Health, Safety, Sustainability and Security (EH3S) consultancy and a Cyber Security and Information Resilience (CSIR) consultancy.

- Environment, Health, Safety, Sustainability and Security (EH3S) and Cyber Security and Information Resilience (CSIR)
  Revenue is generally recognized for services such as consulting, penetration testing and reviewing client systems on a time and materials basis.

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

Training revenue is recognized when the training is delivered.

- Supply chain services
  Supply chain services include grants of licences to access BSI maintained content, consulting and training services and the provision and installation of software. Revenue is recognized on all of the above over time in line with the service being delivered.

- Other consulting
  Revenue is recognized over time where the contract relates to a time and materials type of contract, or when project milestones are achieved, where the contract indicates that best represents the transfer of value and control to the client.

b. Disaggregation of revenue

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

2019	Knowledge £m	Assurance Services £m	Regulatory Services £m	Consulting Services £m	Total £m
Primary geographical markets					
EMEA	**66.4**	**124.7**	**39.7**	**13.2**	**244.0**
Americas	**—**	**46.6**	**70.8**	**64.0**	**181.4**
Asia Pacific	**0.1**	**111.7**	**8.9**	**2.0**	**122.7**
Revenue from external customers	**66.5**	**283.0**	**119.4**	**79.2**	**548.1**
Timing of revenue recognition					
At a point in time	**29.5**	**260.6**	**90.0**	**7.9**	**389.5**
Over time	**37.0**	**22.4**	**29.4**	**71.3**	**158.6**
	66.5	**283.0**	**119.4**	**79.2**	**548.1**

6. Revenue continued

b. Disaggregation of revenue continued

2018	Knowledge £m	Assurance Services £m	Regulatory Services £m	Consulting Services £m	Total £m
Primary geographical markets					
EMEA	65.0	121.3	27.2	13.9	227.4
Americas	—	50.2	54.6	59.6	164.4
Asia Pacific	0.2	105.9	10.9	3.1	120.1
Revenue from external customers	65.2	277.4	92.7	76.6	511.9
Timing of revenue recognition					
At a point in time	29.5	255.6	78.0	9.4	372.5
Over time	35.7	21.8	14.7	67.2	139.4
	65.2	277.4	92.7	76.6	511.9

c. Contract balances

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

	31 December 2019 £m	31 December 2018 £m
Receivables, which are included in 'Trade and other receivables' (Note 18)	**93.4**	87.1
Contract assets, included in 'Contract costs' (Note 19) and 'Trade and other receivables' (Note 18)	**47.7**	43.5
Contract liabilities (Note 25)	**(29.9)**	(31.9)

Significant changes in the contract assets and the contract liabilities balances are as follows:

	2019	
	Contract assets £m	**Contract liabilities £m**
Revenue recognized that was included in the contract liability balance at the beginning of the period	**—**	**31.9**
Increases due to cash received, excluding amounts recognized as revenue during the period	**—**	**(29.9)**
Costs recognized that were included in the contract asset balance at the beginning of the period	**(4.0)**	**—**
Increases due to cash paid, excluding amounts recognized as costs during the period	**5.1**	**—**

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

7. Operating profit

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

	Note	2019 £m	2018 £m
Employee benefit expense	8	**281.5**	247.5
Operating lease payments for plant and machinery	10	**—**	1.8
Operating lease payments for land and buildings	10	**—**	8.9
Depreciation of property, plant and equipment	13	**5.7**	5.2
Loss on disposal of tangible assets	13	**0.5**	0.1
Amortization of intangible assets	14	**6.7**	7.3
Impairment of intangible assets	14	**0.2**	0.4
Loss on disposal of intangible assets	14	**—**	0.1
Depreciation of right-of-use assets	16	**8.6**	—
Loss allowance on trade receivables	18	**0.3**	1.0
Bad debts written off to profit or loss directly		**0.7**	—
Other exchange losses/(gains)		**1.1**	(0.1)
Expenses relating to short-term leases		**0.5**	—
Auditors' remuneration:			
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements		**0.6**	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		**—**	0.1

Exceptional operating costs	2019 £m	2018 £m
Acquisition costs	**(2.3)**	(1.9)
Restructuring and reorganization	**(1.3)**	(0.9)
UK defined benefit plan – GMP adjustment	**—**	(2.5)
Total exceptional operating costs	**(3.6)**	(5.3)

Exceptional operating costs amounted to £3.6m (2018: £5.3m) and comprised:

- £2.3m of costs mainly relating to retention payments on the acquisitions made in 2016 of BSI Services and Solutions (NYC) Inc. (formerly Creative Environment Solutions Corporation), BSI Services and Solutions East Inc. (Quantum Management Group, Inc. (QMG) and Atrium Environmental Health and Safety Services, LLC ('Atrium'), BSI Cybersecurity and Information Resilience (Ireland) Limited, BSI Cybersecurity and Information Resilience (UK) Limited, in 2017 the Neville-Clarke Group and in 2018 AirCert GmbH ('AirCert'); together with costs of acquiring AppSec Consulting, Inc. ('AppSec') and Health and Disability Auditing New Zealand Limited (HDANZ) in 2019 (Note 15); and
- £1.3m of costs relating to a major programme of restructuring to establish a client service centre of operations and compliance in EMEA.

In 2018, exceptional operating costs comprised:

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

The corporation tax impact of exceptional items is £0.5m credit (2018: £1.0m credit).

8. Employee benefit expense

	Note	2019 £m	2018 £m
Wages and salaries (including termination benefits of £1.7m (2018: £1.8m))		**238.9**	207.8
Social security costs		**26.6**	22.8
Long Term Incentive Plan (LTIP) expense		**—**	1.3
Other pension costs – defined contribution plans	23a	**16.0**	13.1
UK defined benefit plan – GMP adjustment	7	**—**	2.5
Employee benefit expense charged in arriving at operating profit	7	**281.5**	247.5
Net pension finance costs	11, 23b	**1.7**	1.9
Total employee benefit expense charged in arriving at profit before income tax		**283.2**	249.4

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

	2019 Number	2018 Number
Production, assessment, training and laboratory	**2,920**	2,687
Sales and distribution	**920**	918
Administration	**806**	711
Total employees	**4,646**	4,316
External resource	**443**	468
Total headcount	**5,089**	4,784

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

9. Directors' emoluments

The emoluments of the Executive and Non-Executive Board members during the year are disclosed in the Directors' remuneration report on pages 66 to 75.

10. Operating leases

From 1 January 2019, the Group has recognized right-of-use assets for all leases, except for short-term and low-value leases; see Note 16 for further information.

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

	2019			2018		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
No later than 1 year	**—**	**—**	**—**	8.9	1.7	10.6
Later than 1 year and no later than 5 years	**—**	**—**	**—**	23.3	2.7	26.0
Later than 5 years	**—**	**—**	**—**	7.2	—	7.2
Minimum lease payments	**—**	**—**	**—**	39.4	4.4	43.8

The Group leases various properties, motor vehicles and other equipment around the world with three of these leases considered significant. The Group headquarters office in London is leased under a non-cancellable lease up to November 2025, with a rent review in November 2020 based on the Retail Prices Index (RPI) with an appropriate cap and collar. The second significant lease relates to a UK regional office in Milton Keynes that has a non-cancellable lease for a term of fifteen years from July 2011, with regular rent reviews based on open market rent. The third significant lease relates to the Americas regional office in Herndon (US) which has a non-cancellable period of eleven years from February 2014, with fixed rent increases each year. The other UK and overseas leases are typically for ten years or less.

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11. Finance income and costs

	2019 £m	2018 £m
Bank interest receivable on cash, short and fixed-term deposits	0.4	0.5
Finance income	**0.4**	0.5
Net interest on the net defined benefit pension obligation (Note 8 and Note 23b)	(1.7)	(1.9)
Interest on lease liabilities (Note 16)	(2.2)	—
Finance costs	**(3.9)**	(1.9)

12. Income tax expense

	2019 £m	2018 £m
Current tax		
UK tax current year	4.9	4.1
UK tax prior years	(0.2)	—
Foreign tax current year	8.6	12.0
Foreign tax prior years	0.4	0.5
Total current tax	**13.7**	16.6
Deferred tax (Note 17)		
Origination and reversal of temporary differences	0.7	(0.1)
Prior year deferred tax adjustments	0.2	(0.4)
Total deferred tax	**0.9**	(0.5)
Total income tax expense	**14.6**	16.1

The tax on the Group's profit before tax is higher (2018: higher) than the theoretical amount that would arise using the weighted average UK statutory tax rate of 19.0% (2018: 19.0%) applicable to profits of the consolidated entities as follows:

	2019 £m	2018 £m
Profit before income tax	**51.2**	55.1
Tax calculated at the weighted average UK statutory tax rate of 19.0% (2018: 19.0%)	9.7	10.5
Effects of:		
– Expenses not deductible for tax purposes	2.1	2.6
– Tax losses for which no deferred income tax asset was recognized	0.7	0.4
– Higher tax rates on overseas earnings	1.9	2.5
Adjustments to tax charge in respect of previous periods:		
– UK	(0.2)	(0.4)
– Foreign	0.4	0.5
Total income tax expense	**14.6**	16.1

The Group effective tax rate (ETR) on profits before tax and goodwill impairment for the year is 28.5% (2018: 29.2%). The ETR at 28.5% comprises a current year tax charge of 28.1% and a net prior year tax charge of 0.4% arising from net under-provided UK and foreign tax.

The ETR for the Group's underlying business operations for the current year is 26.7% (2018: 27.9%) after removing the tax impact of non-operational exceptional costs, finance costs and items related to prior years.

The ETR at 28.5% is further reconciled from the UK statutory tax rate of 19.0% by additional higher overseas Group taxes of 3.7%, prior years' tax charge of 0.4% and the net ETR increase of 5.4% for Group tax permanent and temporary differences and tax losses not recognized.

13. Property, plant and equipment

	Land and buildings				
	Freehold £m	Short leasehold improvements £m	Assets under construction £m	Plant, machinery and office equipment £m	Total £m
Cost					
At 1 January 2018	11.3	10.6	1.1	27.1	50.1
Additions	—	—	2.8	2.5	5.3
Disposals	—	(0.2)	—	(1.2)	(1.4)
Reclassifications	0.5	0.2	(3.0)	2.3	—
Exchange differences	—	—	—	0.6	0.6
At 31 December 2018	**11.8**	**10.6**	**0.9**	**31.3**	**54.6**
Additions	**—**	**0.1**	**2.8**	**3.7**	**6.6**
Disposals	**—**	**—**	**(0.3)**	**(2.3)**	**(2.6)**
Reclassifications	**0.1**	**0.1**	**(2.2)**	**2.0**	**—**
Exchange differences	**—**	**—**	**—**	**(0.6)**	**(0.6)**
At 31 December 2019	**11.9**	**10.8**	**1.2**	**34.1**	**58.0**
Accumulated depreciation and impairment					
At 1 January 2018	(2.9)	(3.0)	—	(18.1)	(24.0)
Charge for the year (Note 7)	(0.4)	(1.0)	—	(3.8)	(5.2)
Disposals	—	0.2	—	1.1	1.3
Exchange differences	—	—	—	(0.4)	(0.4)
At 31 December 2018	**(3.3)**	**(3.8)**	**—**	**(21.2)**	**(28.3)**
Charge for the year (Note 7)	**(0.4)**	**(1.0)**	**—**	**(4.3)**	**(5.7)**
Disposals	**—**	**—**	**—**	**2.1**	**2.1**
Exchange differences	**—**	**—**	**—**	**0.5**	**0.5**
At 31 December 2019	**(3.7)**	**(4.8)**	**—**	**(22.9)**	**(31.4)**
Net book value at 31 December 2019	**8.2**	**6.0**	**1.2**	**11.2**	**26.6**
Net book value at 31 December 2018	8.5	6.8	0.9	10.1	26.3

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 £1.0m (2018: £0.2m) has been contracted for but not provided for in the consolidated financial statements.

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for the year ended 31 December 2019

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 2018	71.7	17.2	16.2	29.7	3.5	138.3
Additions	—	4.6	0.3	—	0.7	5.6
Additions: acquisition of a subsidiary	0.9	—	—	—	—	0.9
Disposals	—	(0.5)	(0.1)	—	(0.1)	(0.7)
Reclassification	—	0.2	(0.2)	—	—	—
Exchange differences	1.3	—	0.1	0.7	—	2.1
At 31 December 2018	**73.9**	**21.5**	**16.3**	**30.4**	**4.1**	**146.2**
Additions	**—**	**9.8**	**0.8**	**—**	**0.8**	**11.4**
Additions: acquisition of subsidiaries (Note 15)	**6.1**	**—**	**—**	**3.6**	**—**	**9.7**
Disposals	**—**	**(0.6)**	**—**	**—**	**—**	**(0.6)**
Exchange differences	**(1.7)**	**0.1**	**(0.2)**	**(1.0)**	**—**	**(2.8)**
At 31 December 2019	**78.3**	**30.8**	**16.9**	**33.0**	**4.9**	**163.9**
Accumulated amortization and impairment						
At 1 January 2018	(6.4)	(11.9)	(11.0)	(11.7)	(2.2)	(43.2)
Charge for the year (Note 7)	—	(1.9)	(2.5)	(2.4)	(0.5)	(7.3)
Disposals	—	0.5	—	—	0.1	0.6
Impairment loss (Note 7)	—	(0.4)	—	—	—	(0.4)
Exchange differences	—	—	(0.1)	(0.3)	—	(0.4)
At 31 December 2018	**(6.4)**	**(13.7)**	**(13.6)**	**(14.4)**	**(2.6)**	**(50.7)**
Charge for the year (Note 7)	**—**	**(2.0)**	**(1.5)**	**(2.6)**	**(0.6)**	**(6.7)**
Disposals	**—**	**0.6**	**—**	**—**	**—**	**0.6**
Impairment loss (Note 7)	**—**	**(0.2)**	**—**	**—**	**—**	**(0.2)**
Exchange differences	**—**	**0.1**	**0.1**	**0.3**	**—**	**0.5**
At 31 December 2019	**(6.4)**	**(15.2)**	**(15.0)**	**(16.7)**	**(3.2)**	**(56.5)**
Net book value at 31 December 2019	**71.9**	**15.6**	**1.9**	**16.3**	**1.7**	**107.4**
Net book value at 31 December 2018	67.5	7.8	2.7	16.0	1.5	95.5

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 consolidated income statement, as appropriate.

Capital commitments in respect of computer software

£0.1m (2018: £2.0m) capital expenditure has been contracted for but not provided for in the consolidated financial statements.

Impairment tests for goodwill

Goodwill is currently allocated to the Group's CGUs identified according to geographical area operating segment. This allocation is consistent with historical allocations of goodwill. During 2020, management plans to reassess these allocations to align more closely with business stream reporting, which is now the primary reporting method used by the Group.

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

	EMEA £m	Americas £m	Asia Pacific £m	Total £m
2019	**24.4**	**32.2**	**15.3**	**71.9**
2018	24.9	27.8	14.8	67.5

14. Intangible assets continued

Impairment tests for goodwill continued

At an individual level, the most significant individual CGU only accounts for 13% of the total goodwill balance and there are 20 CGUs in total. As such, management considers it appropriate to disclose the details of these CGUs in aggregate. The recoverable amount of each CGU within the aggregation of units in the table above is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections covering five years (2018: three years), based on a subset of the financial budgets and strategic plans approved by the Board, unless more specific and recent projections exist. Cash flows beyond the five-year period are extrapolated using a long term growth rate based on 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.

Discount rates applied to the cash flow forecasts are pre-tax, derived using the capital asset pricing model.

The following table sets out the key assumptions for the aggregated units:

	EMEA %	Americas %	Asia Pacific %
2019			
Revenue (% annual growth rate across the five-year plan)	**5.9–11.7**	**7.8–11.8**	**4.5–8.7**
Adjusted EBITDA margin (average % across the five-year plan)*	**8.4–36.2**	**13.1–29.0**	**14.7–19.6**
Resultant adjusted EBITDA (% annual growth rate across the five-year plan)*	**3.8–50.9**	**11.7–24.9**	**3.5–18.2**
Long-term growth rate (%)	**0.2–6.2**	**2.1–2.3**	**2.6–7.6**
Pre-tax discount rate (%)	**7.9–15.4**	**9.9–10.0**	**9.1–12.9**
2018			
Revenue (% annual growth rate across the three-year plan)	1.0–41.9	10.3–16.7	4.3–15.2
Adjusted EBITDA margin (average % across the three-year plan)*	12.0–25.6	11.9–31.6	17.4–26.5
Resultant adjusted EBITDA (% annual growth rate across the five-year plan)*	4.3–12.0	9.9–43.0	8.3–37.9
Long-term growth rate (%)	(0.3)–5.3	1.8	2.6–7.9
Pre-tax discount rate (%)	8.3–19.9	11.3–11.8	11.0–19.9

* Adjusted EBITDA, used as the basis for determining cash flows, is calculated as operating profit before depreciation and amortization, including an allocation of corporate overheads.

The impairment tests arrived at a range of headroom for the CGUs tested. As a result of these tests, no charge for impairment has been included in the consolidated financial statements.

Significant estimate: impact of possible changes in key assumptions

The principal assumptions on which the impairment tests are performed are detailed above. The Group tests on an annual basis whether goodwill has suffered any impairment.

EMEA

There are three individual CGUs within this group of units where it is considered that a reasonably possible change in assumptions could result in the carrying value exceeding their recoverable amounts. The value of the goodwill associated with these CGUs is £9.0m.

The key assumptions assigned to this specific group of CGUs in 2019 are as follows:

	%
Revenue (% annual growth rate across the five-year plan)	9.0–10.6
Adjusted EBITDA margin (average % across the five-year plan)*	8.4–17.3
Resultant adjusted EBITDA (% annual growth rate across the five-year plan)*	31.7–39.0
Long-term growth rate (%)	1.7–6.2
Pre-tax discount rate (%)	7.9–15.4

The recoverable amount of each entity within this group of CGUs would equal its carrying amount if the key assumptions were to change as follows:

	%	ppt change
Resultant adjusted EBITDA (% annual growth rate across the five-year plan)*	10.4–20.1	(11.6)–(28.6)
Long-term growth rate (%)	(7.7)–(96.5)	(13.9)–(98.4)
Pre-tax discount rate (%)	17.1–29.3	9.2–18.9

* Adjusted EBITDA, used as the basis for determining cash flows, is calculated as operating profit before depreciation and amortization, including an allocation of corporate overheads.

Notes to the consolidated financial statements continued

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14. Intangible assets continued

Impairment tests for goodwill continued

Americas

There is one CGU within this group of units where it is considered that a reasonably possible change in assumptions could result in the carrying value exceeding its recoverable amount. The value of the goodwill associated with this CGU is £8.5m.

The key assumptions assigned to this specific CGU are as follows:

	%
Revenue (% annual growth rate across the five-year plan)	11.5
Adjusted EBITDA margin (average % across the five-year plan)*	13.1
Resultant adjusted EBITDA (% annual growth rate across the five-year plan)*	21.1
Long-term growth rate (%)	2.3
Pre-tax discount rate (%)	9.9

The recoverable amount of this CGU would equal its carrying amount if the key assumptions were to change as follows:

	%	ppt change
Resultant adjusted EBITDA (% annual growth rate across the five-year plan)*	6.9	(14.2)
Long-term growth rate (%)	(18.0)	(20.3)
Pre-tax discount rate (%)	19.5	9.6

* Adjusted EBITDA, used as the basis for determining cash flows, is calculated as operating profit before depreciation and amortization, including an allocation of corporate overheads.

Result of the impairment tests

Management has considered and assessed reasonably possible changes for other key assumptions and has not identified any instances where these could cause the carrying amount of the CGUs to exceed their recoverable amount. As a result of this analysis, no impairment is reported in the 2019 financial accounts (2018: £nil).

15. Business combinations

i. Acquisition of AppSec Consulting, Inc. ('AppSec')

On 2 April 2019, the Group acquired 100% of the share capital of AppSec, a Cybersecurity and Information Resilience (CSIR) company based in San Jose, California, in the US, for a consideration of USD 10.6m (£8.1m).

AppSec has a strong reputation in the US cyber security sector and works with a wide range of clients. Although AppSec's initial focus was on web application security, penetration testing and developer training, it has since successfully diversified into providing strategic cyber security, data privacy and a range of governance, risk and compliance advisory services.

This acquisition supports the global growth of the Group's Consulting Services business stream and enables the Group to expand its CSIR offering into a market where BSI already has an excellent reputation for information security and a wide client base.

ii. Acquisition of Health and Disability Auditing New Zealand Ltd. (HDANZ)

On 31 July 2019, the Group acquired 100% of the share capital of HDANZ, a successful auditing organization based in Christchurch, New Zealand, for a consideration of NZD 2.4m (£1.3m). Goodwill recognized arising from the acquisition was £0.9m, based on a valuation method adopted in a similar historical acquisition.

HDANZ was established as a designated auditing agency under the New Zealand Health and Disabilities Services Act and is an industry leader in the country's healthcare services market. HDANZ's team of experts supports clients across New Zealand. Its services predominantly cover aged residential care, residential disability services, mental health/addictions, home care, physiotherapy/allied health, hospitals, retirement villages and a range of other services.

15. Business combinations continued

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

	AppSec £m	HDANZ £m	Total £m
Purchase consideration			
Cash	6.8	1.1	7.9
Deferred consideration outstanding	1.3	0.2	1.5
Total purchase consideration	8.1	1.3	9.4
Recognized amounts of identifiable assets acquired and liabilities assumed			
Cash and cash equivalents	0.2	0.1	0.3
Customer relationships and other acquired intangible assets (Note 14)	3.1	0.5	3.6
Right-of-use asset (Note 16)	0.3	—	0.3
Lease liability (Note 16)	(0.3)	—	(0.3)
Trade and other receivables	0.7	0.4	1.1
Trade and other payables	(0.4)	(0.4)	(0.8)
Deferred tax liabilities arising on acquired intangibles (Note 17)	(0.7)	(0.2)	(0.9)
Total identifiable net assets	2.9	0.4	3.3
Goodwill (included in intangibles) (Note 14)	5.2	0.9	6.1
Total	8.1	1.3	9.4

Goodwill of £6.1m arising from the acquisitions is attributable to future synergies expected from combining the operations of the Group and of the new acquisitions, together with the fair value of the assembled workforce. The goodwill recognized is not expected to be deductible for income tax purposes.

The following table summarizes the revenue and operating profit before exceptional costs that would have been included in the consolidated income statement had AppSec and HDANZ been consolidated from 1 January 2019.

	AppSec £m	HDANZ £m	Total £m
Revenue	4.7	1.5	6.2
Operating profit before exceptional costs	(0.2)	0.1	(0.1)

16. Right-of-use assets and lease liabilities

The Group has lease contracts for properties, motor vehicles and other equipment used in its operations. Leases of properties generally have lease terms between two and fifteen years, while motor vehicles and other equipment generally have lease terms between two and five years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

There are several lease contracts that include extension and termination options and variable lease payments.

The Group also has certain property leases with lease terms of twelve months or less and leases of other equipment with low-value underlying assets. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

16. Right-of-use assets and lease liabilities continued

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the year:

	Properties £m	Motor vehicles £m	Other equipment £m	Total £m
Cost				
At 1 January 2019	53.0	6.2	0.2	59.4
Additions	9.7	3.1	—	12.8
Additions: acquisition of subsidiaries (Note 15)	0.3	—	—	0.3
Disposals	(0.5)	(1.6)	—	(2.1)
Exchange	(1.4)	—	—	(1.4)
At 31 December 2019	**61.1**	**7.7**	**0.2**	**69.0**
Accumulated amortization and impairment				
At 1 January 2019	(22.2)	(2.7)	(0.1)	(25.0)
Charge for the year (Note 7)	(6.8)	(1.8)	—	(8.6)
Disposals	0.2	1.6	—	1.8
Exchange	0.6	—	—	0.6
At 31 December 2019	**(28.2)**	**(2.9)**	**(0.1)**	**(31.2)**
Net book value at 31 December 2019	**32.9**	**4.8**	**0.1**	**37.8**
Net book value at 1 January 2019 (Note 28)	30.8	3.5	0.1	34.4

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	Properties £m	Motor vehicles £m	Other equipment £m	Total £m
At 1 January 2019 (Note 28)	(43.7)	(3.6)	(0.1)	(47.4)
Additions	(9.7)	(3.1)	—	(12.8)
Additions: acquisition of subsidiaries (Note 15)	(0.3)	—	—	(0.3)
Disposals	0.3	—	—	0.3
Accretion of interest (Note 11)	(1.9)	(0.3)	—	(2.2)
Payments	8.7	2.1	0.1	10.9
Exchange	1.1	0.1	(0.1)	1.1
At 31 December 2019	**(45.5)**	**(4.8)**	**(0.1)**	**(50.4)**
Current	(9.6)	(1.7)	—	(11.3)
Non-current	(35.9)	(3.1)	(0.1)	(39.1)

The following are amounts recognized in the consolidated income statement:

	2019 £m
Properties	**6.8**
Motor vehicles	**1.8**
Other equipment	**—**
Depreciation of right-of-use assets	**8.6**
Interest expense (included in finance costs)	**2.2**
Expense relating to short-term leases (included in cost of sales and administrative expenses)	**0.5**
Expense relating to leases of low-value assets (included in administrative expenses)	**—**
Total amount recognized in consolidated income statement	**11.3**

The total cash outflow for right-of-use asset leases in 2019 was £10.9m.

17. Deferred tax

	2019 £m	2018 £m
Deferred tax assets:		
Gross deferred tax assets	**30.7**	24.1
Offset of balances within the same tax jurisdiction	**(14.3)**	(5.4)
Net deferred tax assets	**16.4**	18.7
– To be recovered after more than twelve months	**9.7**	13.3
– To be recovered within twelve months	**6.7**	5.4
Deferred tax liabilities:		
Gross deferred tax liabilities	**(20.6)**	(10.7)
Offset of balances within the same tax jurisdiction	**14.3**	5.4
Net deferred tax liabilities	**(6.3)**	(5.3)
– To be incurred after more than twelve months	**(5.9)**	(4.0)
– To be incurred within twelve months	**(0.4)**	(1.3)
Net deferred tax assets	**10.1**	13.4

Movement on the net deferred tax account

	2019 £m	2018 £m
At 1 January	**13.4**	16.6
Impact of change in accounting policy (Note 28)	**1.5**	—
Adjusted balance at 1 January	**14.9**	16.6
Acquisitions of subsidiaries (Note 15)	**(0.9)**	—
Income statement tax credited (Note 12)	**(0.9)**	0.5
Tax charged to equity relating to retirement benefit obligations	**(2.5)**	(3.5)
Exchange differences	**(0.5)**	(0.2)
At 31 December	**10.1**	13.4

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 assets	Accelerated capital allowances £m	Pension £m	Losses £m	Leases £m	Other temporary differences £m	Total £m
At 1 January 2018	2.3	16.0	1.5	—	7.0	26.8
Credited/(charged) to the income statement	0.5	—	(0.8)	—	0.5	0.2
Charged directly to reserves	—	(3.5)	—	—	—	(3.5)
Exchange differences	—	—	0.1	—	0.5	0.6
At 31 December 2018	2.8	12.5	0.8	—	8.0	24.1
At 1 January 2019	**2.8**	**12.5**	**0.8**	**—**	**8.0**	**24.1**
Impact of change in accounting policy (Note 28)	**—**	**—**	**—**	**10.2**	**—**	**10.2**
Adjusted balance at 1 January 2019	**2.8**	**12.5**	**0.8**	**10.2**	**8.0**	**34.3**
(Charged)/credited to the income statement	**(0.6)**	**—**	**0.9**	**0.4**	**(1.8)**	**(1.1)**
Charged directly to reserves	**—**	**(2.5)**	**—**	**—**	**—**	**(2.5)**
Exchange differences	**—**	**—**	**(0.1)**	**0.2**	**(0.1)**	**—**
At 31 December 2019	**2.2**	**10.0**	**1.6**	**10.8**	**6.1**	**30.7**

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

17. Deferred tax continued

Gross movement on the deferred tax account continued

Deferred tax liabilities	Capitalized contract costs £m	Leases £m	Other temporary differences £m	Total £m
At 1 January 2018	(3.0)	–	(7.2)	(10.2)
(Charged)/credited to the income statement	(0.5)	–	0.8	0.3
Exchange differences	(0.1)	–	(0.7)	(0.8)
At 31 December 2018	(3.6)	–	(7.1)	(10.7)
At 1 January 2019	**(3.6)**	**–**	**(7.1)**	**(10.7)**
Impact of change in accounting policy (Note 28)	**–**	**(8.7)**	**–**	**(8.7)**
Adjusted balance at 1 January 2019	**(3.6)**	**(8.7)**	**(7.1)**	**(19.4)**
Credited/(charged) to the income statement	**0.1**	**(0.3)**	**0.4**	**0.2**
Acquisition of subsidiaries (Note 15)	**–**	**–**	**(0.9)**	**(0.9)**
Exchange differences	**–**	**(0.3)**	**(0.2)**	**(0.5)**
At 31 December 2019	**(3.5)**	**(9.3)**	**(7.8)**	**(20.6)**

The deferred tax charged directly to reserves during the year was £2.5m (2018: charge of £3.5m) 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 £2.7m (2018: £2.0m) in respect of cumulative tax losses amounting to £9.1m (2018: £6.2m) that can be carried forward against future taxable income.

18. Trade and other receivables

	2019 £m	2018 £m
Trade receivables	**93.4**	87.1
Less: loss allowance	**(2.5)**	(3.3)
Trade receivables – net	**90.9**	83.8
Other receivables	**13.7**	13.2
Prepayments	**10.2**	7.7
Accrued income	**32.1**	28.6
Total trade and other receivables	**146.9**	133.3
Less non-current portion:		
– Other receivables	**(8.3)**	(7.1)
Current portion of trade and other receivables	**138.6**	126.2

Trade and other receivables are non-interest bearing and are generally on 30–60 day (2018: 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.

18. Trade and other receivables continued

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

	2019 £m	2018 £m
British Pounds Sterling	**35.5**	35.1
US Dollars	**58.1**	44.7
Euros	**16.4**	18.5
Chinese Renminbi	**4.9**	4.3
Japanese Yen	**5.8**	5.2
Australian Dollars	**4.7**	1.3
Other currencies	**21.5**	24.2
Total trade and other receivables	**146.9**	133.3

Movements on the Group loss allowance on trade receivables are as follows:

	2019 £m	2018 £m
At 1 January	**3.3**	3.2
Increase in loss allowance recognized in profit or loss during the year	**0.7**	1.1
Receivables written off during the year as uncollectable	**(1.0)**	(1.0)
Unused amounts reversed	**(0.4)**	(0.1)
Exchange differences	**(0.1)**	0.1
At 31 December	**2.5**	3.3

The creation and release of the loss allowance on receivables have been included within administrative expenses in the income statement. Receivables are written off when there is no expectation of recovering additional cash.

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

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

19. Contract costs

Incremental costs of obtaining contacts, such as sales commissions, are capitalized and amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates (i.e. over the estimated period of benefit). Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the assets that the Group otherwise would have recognized is one year or less.

Movements on the contract costs balance are as follows:

	2019 £m	2018 £m
At 1 January	**14.9**	12.6
Capitalization during the year	**5.7**	6.0
Amortization during the year	**(4.6)**	(4.0)
Exchange differences	**(0.4)**	0.3
At 31 December	**15.6**	14.9

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

20. Inventories

	2019 £m	2018 £m
Consumables	**0.1**	0.1
Total inventories	**0.1**	0.1

21. Derivative financial instruments

	2019 £m	2018 £m
Current assets		
Forward foreign exchange contracts	**–**	0.1

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2019 were £1.9m (2018: £23.1m).

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 (2018: 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.

22. Fixed-term deposits and cash and cash equivalents

a. Fixed-term deposits

The Group has invested £15.0m of cash in a fixed-term bank deposit (2018: £15.0m), subject to a notice period of 95 days. This is classified within the consolidated statement of cash flows under investing activities as it does not fall within the definition of cash and cash equivalents. In the consolidated balance sheet this fixed-term deposit is shown within current assets.

b. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	**70.0**	70.1
Short-term deposits	**0.1**	1.7
Total cash and cash equivalents	**70.1**	71.8

No bank overdraft facilities were in use at 31 December 2019 (2018: £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 at 31 December 2019 was £70.1m (2018: £71.8m). The maximum exposure to credit risk at the reporting date is the fair value of cash and short-term deposits mentioned above.

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

	2019				2018			
	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	**–**	**40.1**	**13.0**	**53.1**	–	48.5	12.9	61.4
Chinese Renminbi	**–**	**8.7**	**–**	**8.7**	–	5.1	–	5.1
US Dollars	**–**	**–**	**7.7**	**7.7**	–	–	4.2	4.2
Euros	**0.3**	**0.5**	**2.3**	**3.1**	0.3	0.7	1.5	2.5
Australian Dollars	**–**	**–**	**3.0**	**3.0**	1.8	1.7	–	3.5
Japanese Yen	**0.6**	**–**	**0.4**	**1.0**	0.3	–	0.1	0.4
Other currencies	**1.4**	**–**	**7.1**	**8.5**	0.9	1.4	7.4	9.7
Total	**2.3**	**49.3**	**33.5**	**85.1**	3.3	57.4	26.1	86.8

23. Retirement benefit obligations

The Group operates the following retirement benefit schemes:

a. Defined contribution schemes

The Group offers a group personal pension plan to all new UK employees. The associated costs for the year were £10.1m (2018: £8.9m).

In addition, a number of other money purchase schemes are operated in overseas companies, with costs for the year totalling £5.9m (2018: £4.2m).

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 £85m (2018: £89m) 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 2019. This revealed an ongoing funding level of 83% (31 March 2016: 80%). The Group subsequently agreed a schedule of contributions with the Trustees which was put in place from 1 April 2019. 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 total contributions of £66.5m over the period from 1 April 2019 to 31 August 2024, replacing the previous annual contribution of £13.5m payable in March with monthly contributions payable from February 2020. As a result, expected contributions to the retirement benefit plan for the year ending 31 December 2020 are £27.1m, comprising the monthly payments and a one-off contribution of £12.9m in January 2020.

Contributions in respect of future service benefits ceased on 30 April 2010.

The Group paid a total of £13.5m in additional contributions to the Plan during 2019 (2018: £13.5m).

Balance sheet

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

	2019 £m	2018 £m
Present value of defined benefit obligations	**436.3**	410.8
Fair value of plan assets	**(378.9)**	(339.1)
Net liability in the balance sheet	**57.4**	71.7

Notes to the consolidated financial statements continued
for the year ended 31 December 2019

23. Retirement benefit obligations continued
b. Defined benefit schemes continued
i. UK defined benefit plan continued

The movement in the defined benefit obligation over the year was as follows:

	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 January 2018	440.3	(350.3)	90.0
Amounts charged/(credited) to the income statement:			
– Administration expenses	–	0.5	0.5
– Service cost – GMP adjustment (Note 7)	2.5	–	2.5
– Interest expense/(income) (Note 8, Note 11)	10.6	(8.7)	1.9
	13.1	(8.2)	4.9
Re-measurements:			
– Loss on plan assets, excluding amounts included in interest expense	–	18.6	18.6
– Gain from change in demographic assumptions	(3.8)	–	(3.8)
– Gain from change in financial assumptions	(25.0)	–	(25.0)
– Experience losses	0.5	–	0.5
	(28.3)	18.6	(9.7)
Contributions:			
– Employers	–	(13.5)	(13.5)
Payments from plans:			
– Disbursements	(14.3)	14.3	–
	(14.3)	0.8	(13.5)
At 31 December 2018	**410.8**	**(339.1)**	**71.7**
Amounts charged/(credited) to the income statement:			
– Administration expenses	**–**	**0.7**	**0.7**
– Interest expense/(income) (Note 8, Note 11)	**11.5**	**(9.8)**	**1.7**
	11.5	**(9.1)**	**2.4**
Re-measurements:			
– Return on plan assets, excluding amounts included in interest expense	**–**	**(31.0)**	**(31.0)**
– Gain from change in demographic assumptions	**(14.3)**	**–**	**(14.3)**
– Loss from change in financial assumptions	**50.5**	**–**	**50.5**
– Experience gains	**(8.4)**	**–**	**(8.4)**
	27.8	**(31.0)**	**(3.2)**
Contributions:			
– Employers	**–**	**(13.5)**	**(13.5)**
Payments from plans:			
– Disbursements	**(13.8)**	**13.8**	**–**
	(13.8)	**0.3**	**(13.5)**
At 31 December 2019	**436.3**	**(378.9)**	**57.4**

23. Retirement benefit obligations continued

b. Defined benefit schemes continued

i. UK defined benefit plan continued

Assumptions

The principal actuarial assumptions used were as follows:

	2019 % p.a.	2018 % p.a.
Rate of increase in salaries	**4.05**	4.30
Rate of revaluation in deferment	**2.05**	2.30
Pension increase rate:		
– RPI (min. 3%, max. 5%)	**3.50**	3.60
– CPI (min. 3%, max. 5%)	**3.20**	3.30
Discount rate	**2.00**	2.85
Inflation assumption – RPI	**3.05**	3.30
Inflation assumption – CPI	**2.05**	2.30

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics. Life expectancy at age 65 for a member currently aged 45 is 23.3 (2018: 24.6) years (men) or 25.7 (2018: 26.2) years (women). Life expectancy for a member currently aged 65 is 22.0 (2018: 23.2) years (men) or 24.3 (2018: 24.6) years (women).

Plan assets are comprised as follows:

	Value at 31 December 2019 £m		Value at 31 December 2018 £m	
Schroders Diversified Growth Fund	**117.8**	**31%**	90.4	27%
Standard Life Global Absolute Return Strategies Fund	**70.2**	**19%**	64.5	19%
M&G Credit Fund	**20.3**	**5%**	20.0	6%
Schroders Liability-Driven Investments	**52.2**	**14%**	38.3	11%
Schroders Corporate Bond Fund	**—**	**—**	10.4	3%
Alcentra Credit Fund	**19.8**	**5%**	20.8	6%
Cash	**13.6**	**4%**	5.3	2%
MetLife Annuity Policy	**85.0**	**22%**	89.4	26%
Total fair value of plan assets	**378.9**	**100%**	339.1	100%

The weighted average duration of the defined benefit obligation is sixteen years (2018: sixteen years).

Sensitivity analysis

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

	Increase/(decrease) in present value of deficit at 31 December 2019		
	Change in assumption	Increase in assumption £m	Decrease in assumption £m
Discount rate	**0.25% p.a.**	**(14.4)**	**16.2**
Inflation rate*	**0.25% p.a.**	**3.5**	**(3.1)**
Salary escalation	**0.25%**	**0.5**	
Life expectancy	**Approximately 1 year**	**12.4**	

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

ii. Other defined benefit schemes

The Group operates defined benefit pension schemes in Taiwan, Germany, Indonesia and the Philippines which provide benefits based on final pensionable salary and service. The net liability recognized in the balance sheet at 31 December 2019 is £2.2m (2018: £1.9m). £0.4m (2018: £0.2m) was charged to the income statement in relation to these schemes and the Group made contributions of £0.2m (2018: £0.2m).

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

23. Retirement benefit obligations continued

b. Defined benefit schemes continued

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

	2019 £m	2018 £m
Gain/(loss) on re-measurements of defined benefit plan net liabilities		
– UK	**3.2**	9.7
– Overseas	**(0.1)**	(0.5)
	3.1	9.2
Tax on re-measurements of defined benefit plan net liabilities		
– Deferred tax charge (Note 17)	**(2.5)**	(3.5)
– Current tax credit	**2.1**	1.7
Re-measurements of post-employment benefit obligations, net of taxes	**2.7**	7.4

24. Provisions for liabilities and charges

	Property provisions £m	Other provisions £m	Total £m
At 1 January 2018	1.2	0.9	2.1
Charged to the income statement	0.2	0.5	0.7
Amount utilized in the period	—	(0.1)	(0.1)
Exchange differences	—	0.2	0.2
At 31 December 2018	**1.4**	**1.5**	**2.9**
Charged to the income statement	**0.1**	**0.3**	**0.4**
Amount utilized in the period	**(0.1)**	**(0.2)**	**(0.3)**
Unused amount reversed in the period	**—**	**(0.2)**	**(0.2)**
Exchange differences	**—**	**(0.1)**	**(0.1)**
At 31 December 2019	**1.4**	**1.3**	**2.7**

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

Other provisions relate to amounts required to cover end-of-service indemnity pursuant to the United Arab Emirates Federal Labour Law and other employment-related provisions.

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

Analysis of total provisions:

	2019 £m	2018 £m
Non-current	**2.4**	2.3
Current	**0.3**	0.6
Total provisions for liabilities and charges	**2.7**	2.9

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.

25. Trade and other payables

	2019 £m	2018 £m
Trade payables	**7.5**	9.8
VAT and sales taxes	**4.8**	4.2
Other taxes and social security	**5.7**	5.3
Other payables	**16.5**	17.1
Accruals	**46.2**	48.4
Deferred income	**29.9**	31.9
Total trade and other payables	**110.6**	116.7
Less non-current portion:		
– Trade and other payables	**(10.3)**	(9.4)
Current portion of trade and other payables	**100.3**	107.3

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

	2019 £m	2018 £m
British Pounds Sterling	**48.0**	57.0
US Dollars	**23.5**	25.8
Euros	**10.4**	7.4
Chinese Renminbi	**6.2**	5.9
Japanese Yen	**3.2**	3.5
Australian Dollars	**2.5**	3.0
Other currencies	**16.8**	14.1
Total trade and other payables	**110.6**	116.7

Trade payables are non-interest bearing and are generally on 30–60 day (2018: 30–60 day) terms. Other payables are non-interest bearing and are generally on 30–90 day (2018: 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.

26. Financial assets

a. Financial assets by category

At 31 December 2019	Other financial assets £m
Assets as per balance sheet	
Trade and other receivables excluding prepayments and accrued income (Note 18)	**104.6**
Fixed-term deposits (Note 22a)	**15.0**
Cash and cash equivalents (Note 22b)	**70.1**
Total	**189.7**

At 31 December 2019	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet	
Trade and other payables excluding non-financial liabilities (Note 25)	**80.7**
Lease liabilities (Note 16)	**50.4**
Total	**131.1**

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

26. Financial assets continued

a. Financial assets by category continued

At 31 December 2018	Cash flow hedges at fair value £m	Other financial assets £m
Assets as per balance sheet		
Trade and other receivables excluding prepayments and accrued income (Note 18)	—	97.0
Derivative financial instruments (Note 21)	0.1	—
Fixed-term deposits (Note 22a)	—	15.0
Cash and cash equivalents (Note 22b)	—	71.8
Total	0.1	183.8

At 31 December 2018	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet	
Trade and other payables excluding non-financial liabilities (Note 25)	84.8
Total	84.8

b. Credit quality of financial assets

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

27. Contingent liabilities

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

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

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

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

28. Changes in accounting policy

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has applied IFRS 16, "Leases" using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the significant changes and quantitative impact of the changes are set out below.

a. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4, "Determining whether an Arrangement contains a Lease". The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 2(z).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

28. Changes in accounting policy continued

b. Right-of-use assets and lease liabilities

As a lessee, the Group leases a portfolio of assets including properties, motor vehicles and other equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most of these leases.

For leases that were previously classified as operating leases under IAS 17, lease liabilities on transition were measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred and lease payments made at or before the commencement date, less any lease incentives received (see Note 2(z)).

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

c. Practical expedients

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group applied:

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

d. Impact of implementation

The implementation of IFRS 16 has resulted in the following adjustments to the opening balances at 1 January 2019:

	1 January 2019 £m
Right-of-use assets (Note 16)	34.4
Deferred tax assets (Note 17)	10.2
Trade and other receivables	(0.4)
Trade and other payables	6.2
Deferred tax liabilities (Note 17)	(8.7)
Lease liabilities (Note 16)	(47.4)
Retained earnings at 1 January 2019	**(5.7)**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments on transition using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate at 1 January 2019. The weighted average rate applied is 4.31%.

A reconciliation of the operating lease commitments disclosed in the 2018 consolidated financial statements to the lease liabilities on transition is set out below:

	£m
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	43.8
Discount on lease commitments, as described above	(4.0)
Discounted lease commitments at 1 January 2019	39.8
Recognition exemption for short-term leases	(0.2)
Extension and termination options reasonably certain to be exercised	7.8
Lease liabilities recognized at 1 January 2019	**47.4**
Of which are:	
Current lease liabilities	7.6
Non-current lease liabilities	39.8

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

28. Changes in accounting policy continued

The following tables summarize the impacts of adopting IFRS 16 on the Group's consolidated financial statements for the year ended 31 December 2019.

Consolidated income statement
for the year ended 31 December 2019

	Impact of changes in accounting policy		
	31 December 2019 as reported £m	Adjustments £m	Balances without adoption of IFRS 16 £m
Revenue	**548.1**	—	548.1
Cost of sales	**(294.4)**	(0.1)	(294.5)
Selling and distribution expenses	**(71.5)**	(0.1)	(71.6)
Administrative expenses	**(123.9)**	(1.5)	(125.4)
Exceptional operating costs	**(3.6)**	—	(3.6)
Finance income	**0.4**	—	0.4
Finance costs	**(3.9)**	2.2	(1.7)
Income tax expense	**(14.6)**	(0.1)	(14.7)
Profit for the year	**36.6**	0.4	37.0

Consolidated statement of comprehensive income
for the year ended 31 December 2019

	Impact of changes in accounting policy		
	31 December 2019 as reported £m	Adjustments £m	Balances without adoption of IFRS 16 £m
Profit for the year	**36.6**	0.4	37.0
Other comprehensive loss for the year	**(1.8)**	—	(1.8)
Total comprehensive income for the year	**34.8**	0.4	35.2

Consolidated balance sheet
as at 31 December 2019

	Impact of changes in accounting policy		
	31 December 2019 as reported £m	Adjustments £m	Balances without adoption of IFRS 16 £m
Right-of-use assets	**37.8**	(37.8)	—
Deferred tax assets	**16.4**	(1.5)	14.9
Trade and other receivables	**146.9**	0.4	147.3
Other assets	**240.3**	—	240.3
Total assets	**441.4**	(38.9)	402.5
Trade and other payables	**(110.6)**	(5.6)	(116.2)
Lease liabilities	**(50.4)**	50.4	—
Other liabilities	**(73.0)**	—	(73.0)
Total liabilities	**(234.0)**	44.8	(189.2)
General reserves	**(204.4)**	(6.1)	(210.5)
Translation reserves	**(3.0)**	0.2	(2.8)
Total equity	**(207.4)**	(5.9)	(213.3)

28. Changes in accounting policy continued

Consolidated statement of cash flows
for the year ended 31 December 2019

	Impact of changes in accounting policy		
	31 December 2019 as reported £m	Adjustments £m	Balances without adoption of IFRS 16 £m
Profit before income tax	**51.2**	0.5	51.7
Depreciation of right-of-use assets	**8.6**	(8.6)	—
Finance costs	**3.9**	(2.2)	1.7
Increase in trade and other payables	**1.8**	(0.6)	1.2
Interest elements of lease payments	**(2.2)**	2.2	—
Others	**(28.7)**	—	(28.7)
Net cash from operating activities	**34.6**	(8.7)	25.9
Net cash used in investing activities	**(25.6)**	—	(25.6)
Principal elements of lease payments	**(8.7)**	8.7	—
Net cash used in financing activity	**(8.7)**	8.7	—
Net increase in cash and cash equivalents	**0.3**	—	0.3

29. 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 23.

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 66 to 75. Emoluments paid to other members of the Executive Committee for employee services are shown in the table below:

	2019 £m	2018 £m
Salaries and short-term benefits	**2.3**	2.2
Terminations and post-employment benefits	**0.2**	0.3
Other long-term benefits	**0.1**	0.7
Total emoluments	**2.6**	3.2

30. Interests in Group undertakings

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
AirCert GmbH	Maria-Merian-Strasse 8, 85521, Ottobrunn, Germany	Germany	100%	Business services
AppSec Consulting, Inc. (acquired 2 April 2019)	6110 Hellyer Avenue, Suite 100, San Jose, CA, 95138, 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.	251 Little Falls Drive, Wilmington, DE, 19808, United States	USA	100%	Business services
BSI Assurance UK Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Brasil Sistemas de Gestao Ltda	Av. Pres. Juscelino Kubitschek, 1327 – 20° andar 04543-011 – São Paulo, Brasil	Brazil	100%	Business services

30. Interests in Group undertakings continued

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
BSI Certification and Technical Training (Beijing) Limited	Room 2002, No. 24A Jianguomenwai Street, Chaoyang District, Beijing, 100004, China	China	100%	Business services
BSI Cybersecurity and Information Resilience (Ireland) Limited	Corrig Court, Corrig Road, Sandyford Industrial Estate, Dublin, D18C6K1, Ireland	Ireland	100%	Business services
BSI Cybersecurity and Information Resilience (UK) Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Group (Thailand) Co., Ltd	127/25 Panjathani Tower, 20th Floor, Nonsee Road, Chongnonsee, Yannawa, Bangkok, 10120, Thailand	Thailand	100%	Business services
BSI Group America Inc.	251 Little Falls Drive, Wilmington, DE, 19808, United States	USA	100%	Business services
BSI Group ANZ Holdings Pty Ltd	Level 23, 35 Castlereagh Street, Sydney, NSW 2000, Australia	Australia	100%	Holding company
BSI Group ANZ Pty Limited	Level 23, 35 Castlereagh Street, Sydney, NSW 2000, Australia	Australia	100%	Business services
BSI Group Assurance Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Holding company
BSI Group Australia Holdings PTY Limited	Level 23, 35 Castlereagh Street, Sydney, NSW 2000, Australia	Australia	100%	Holding company
BSI Group Canada Inc.	Brookfield Place, 181 Bay Street, Suite 1800, Toronto, Canada M5J 2T9	Canada	100%	Business services
BSI Group Deutschland GmbH	Eastgate, Hanauer Landstrasse 115, 60314, Frankfurt a.m., Germany	Germany	100%	Business services
BSI Group Eurasia Belgelendirrme Hizmetleri Limited Sirketi	Degirmen Sk No: 16 Ar Plaza, A-Blok Kat: 6 Ofis: 61–62, Kozyatagi – Kadikoy, Erenkoy, Istanbul, Turkey	Turkey	100%	Business services
BSI Group France Sarl	19 rue Alphonse de Neuville, 75017, Paris, France	France	98%	Business services
BSI Group Holdings The Netherlands BV	Thomas R Malthusstraat 3c, 1066 JR Amsterdam, The Netherlands	The Netherlands	100%	Holding company
BSI Group India Private Limited	A-2 Mira Corporate Suites, Plot 1 & 2, Ishwar Nagar, Mathura Road, New Delhi, 110020, India	India	100%	Business services
BSI Group Italia S.R.L.	Via Gustavo Fara, 35 20124, Milano, Italy	Italy	100%	Business services
BSI Group Japan K.K.	Seizan Bldg. 5F, 2-12-28 Kita-Aoyama, Minato-ku, Tokyo 107-0061, Japan	Japan	100%	Business services
BSI Group Korea Limited	Insa-dong, Tdehwa Bldgo, 8th Floor, 29 Insa-dong, 5-gil, Jongo-gu, Seoul, South Korea	South Korea	100%	Business services
BSI Group KSA	Office No. 4, Rawana Plaza, 7925 Uthman ibn Affan, Al Taawun, Riyadh 12478 – 4080, Saudi Arabia	Saudi Arabia	100%	Business services
BSI Group Mexico S dr RL de CV	Av. Paseo de la Reforma 505, Piso 50, 06500 Ciudad de México, CDMX, Mexico	Mexico	100%	Business services
BSI Group Nordics AB (established on 20 May 2019 and registered on 10 June 2019; formerly known as Goldcup 18790 AB)	c/o Hummelkläppen i Stockholm AB, Villagatan 19, 114 32 Stockholm, Sweden	Sweden	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

30. Interests in Group undertakings continued

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
BSI Group Singapore Pte Limited	77 Robinson Road, Unit #28-01 & #28-03, Singapore, 068896	Singapore	100%	Business services
BSI Group South Africa (Pty) Limited***	De Haviland Crescent Nr. 5, Ill Villaggio Nr. 12, Persequor, Pretoria, South Africa	South Africa	74%	Business services
BSI Group The Netherlands BV	Thomas R Malthusstraat 3c, 1066 JR Amsterdam, The Netherlands	The Netherlands	100%	Business services
BSI Healthcare Saudi Arabia LLC	SFDA Building, 2nd Floor Office, 854 Al Olaya Street, Riyadh, Al Ghadheer Area, Saudi Arabia	Saudi Arabia	100%	Business services
BSI International Projects Sarl	19 rue Alphonse de Neuville, 75017, Paris, France	France	100%	Business services
BSI Limited**	389 Chiswick High Road, London W4 4AL, England	England	100%	Holding company
BSI Management Systems Certification (Beijing) Co. Ltd	Room 2008, East Ocean Centre, No. 24A Jianguomenwai Street, Beijing, 100004, China	China	100%	Business services
BSI Management Systems CIS LLC	Panfilova str. 19/4, Khimki, 141407, Moscow reg., Russian Federation	Russia	100%	Business services
BSI Management Systems Ltd	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Group New Zealand Limited (formerly known as BSI New Zealand Limited)	11a Wynyard Street, Devonport, Auckland, 0624, New Zealand	New Zealand	100%	Business services
BSI Pacific Limited	23rd Floor, Cambridge House, Taikoo Place, 979 King's Road, Island East, Hong Kong	Hong Kong	100%	Business services
BSI Pension Trust Limited**	389 Chiswick High Road, London W4 4AL, England	England	100%	Pension plan trustee
BSI Professional Services Asia Pacific Limited	23rd Floor, Cambridge House, Taikoo Place, 979 King's Road, Island East, Hong Kong	Hong Kong	100%	Business services
BSI Professional Services EMEA Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Professional Services Holdings Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Holding company
BSI Professional Services Japan Co., Limited	2-12-28 Kitaaoyama Minato-ku, Tokyo 107-0061, Japan	Japan	100%	Business services
BSI Services (Asia Pacific) Sdn Bhd	Suite 25.01, Level 25, Centrepoint South, The Boulevard, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur Wilayah Persekutuan, Malaysia	Malaysia	100%	Business services
BSI Services and Solutions (West) Inc.	2150 North First Street, Suite 450, San Jose, CA, 95131, United States	USA	100%	Business services
BSI Services and Solutions East Inc.	1187 Main Avenue, Suite 2B, Clifton, NJ, 07011, United States	USA	100%	Business services
BSI Services and Solutions NYC Inc.	80 State Street, Albany, NY, 12207, United States	USA	100%	Business services
BSI Services Holdings Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Services Malaysia Sdn Bhd	Unit 10-03, Level 10, Tower A, The Vertical Business Suites, Bangsar South, No. 8, Jalan Kerinchi, 59200, Kuala Lumpur, Malaysia	Malaysia	100%	Business services

Notes to the consolidated financial statements continued
for the year ended 31 December 2019

30. Interests in Group undertakings continued

Name	Registered office address	Country of incorporation or registration	Proportion held*	Activity
BSI Standards Holdings Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Holding company
BSI Standards Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
BSI Vietnam Co., Ltd	Suite 1106, 11F/L Citilight Tower, 45 Vo Thi Sau Street, Dakao Ward, District 1, Ho Chi Minh City, Vietnam	Vietnam	100%	Business services
Espion UK Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
Health and Disability Auditing New Zealand Limited (acquired 31 July 2019 and amalgamated with BSI Group New Zealand Limited 31 December 2019)	Gannaway Mercer Ltd, Chartered Accountants, 11a Wynyard Street, Devonport, Auckland, 0624, New Zealand	New Zealand	100%	Business services
Hypercat Alliance Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Business services
Neville-Clarke (M) Sdn Bhd***	Level 15-2, Faber Imperial Court, Julan Sultan Ismail, 50250 Kuala Lumpur, Wilayah Persekutuan, Malaysia	Malaysia	30%	Business services
Neville-Clarke (Singapore) Pte Ltd	331 North Bridge Road, #12-03 Odeon Towers, Singapore 188720	Singapore	100%	Business services
Neville-Clarke International Pte Ltd	331 North Bridge Road, #12-03 Odeon Towers, Singapore 188720	Singapore	100%	Business services
Neville-Clarke International Sdn Bhd	Level 15-2, Faber Imperial Court, Julan Sultan Ismail, 50250 Kuala Lumpur, Wilayah Persekutuan, Malaysia	Malaysia	100%	Business services
Neville-Clarke International Limited	389 Chiswick High Road, London W4 4AL, England	England	100%	Holding company
BSI Group Philippines, Inc (formerly known as Neville Clarke Philippines, Inc)	Unit 2408, The Orient Square, Emerald Avenue, Ortigas Center, Pasig City, The Philippines	The Philippines	>99%	Business services
PT BSI Group Indonesia	Talavera Office Park, Jl. TB. Simatupang kav.2, Talaver 2 Suite, 20 Floor, Jakarta 12430, Indonesia	Indonesia	100%	Business services
PT Neville-Clarke Indonesia	Menara Bidakara 2, Lantai 3, Jl. Jendral Gatot Subroto Kav. 71–73, Komplek Bidakara, Jakarta Selatan, Indonesia	Indonesia	100%	Business services

* Percentage of ordinary share capital.

** Companies directly owned by the British Standards Institution.

*** The non-controlling shareholders have no residual interest in the companies' assets, therefore the Group consolidates 100% of the companies' assets and results.

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

31. Post-balance sheet events

In the light of recent developments, we have assessed the potential implications of the coronavirus pandemic for the Group and its Financial Statements. As detailed in the Directors' Report, additional work has been performed to consider the impact of coronavirus on the ongoing business and, while there will be an economic impact, 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 the next twelve months.

At this time, we consider the impact of coronavirus to the Group to be short-term. Quarter 1 2020 revenue and profit are robust but will be adversely affected for the full year. While some business may be lost, much of it will merely be deferred, as it is driven by clients' regulatory or supply chain requirements. Parts of our business are able to operate remotely and our Regulatory Services business stream, in particular, retains a strong order book. Some of our clients may also face credit-related issues but, as stated in the Group's assessment of credit risk (Note 3b), the Group's customer base is large and unrelated and concentration of credit risk with respect to trade receivables is limited.

As a result of the economic impacts of coronavirus, there have been movements in the valuation of the assets held by the UK defined benefit pension scheme, and the discount rates used to value its liabilities. While these impacts have been considerable during recent weeks, they remain short-term volatility in long-term assets and liabilities. We have an agreed schedule of contributions that is reviewed every three years, and actuarial swings in the deficit are taken into consideration at the time of each triennial valuation.

The impact of the coronavirus pandemic has taken place since December 2019 and it is therefore a non-adjusting event. No changes resulting from the impact of coronavirus have been made to the valuation of any assets or liabilities in our 2019 Financial Statements. We have considered the impact of the virus on the judgements made at 31 December on the carrying value of tangible and intangible fixed assets. Given our view that the impact of the virus is likely to be short term, our assessment is that this will not materially affect the carrying value of these assets. The full impact will be reviewed during 2020 and any impairments, provisions or other adjustments will be taken, as required, in the 2020 Financial Statements.

Independent auditors' report

to the Board of Directors of The British Standards Institution

Report on the audit of the parent company financial statements

Opinion

In our opinion, The British Standards Institution's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 31 December 2019;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the parent company balance sheet as at 31 December 2019 and the parent company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

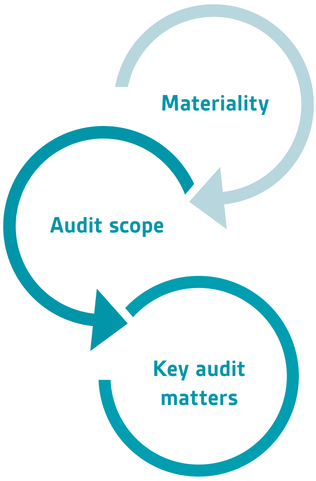
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit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

Independence

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

Our audit approach

Overview



- Overall materiality: £469,000 (2018: £503,247), based on 1% of total expenses.

- We performed a full scope audit of the parent company.
- We have engaged pension specialists to perform work over the defined benefit pension plan.

- Valuation of defined benefit pension scheme liabilities.

The scope of our audit

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

Key audit matters

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

Report on the audit of the parent company financial statements continued

Our audit approach continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Valuation of defined benefit pension scheme liabilities The parent company has defined benefit pension plans with net retirement benefit obligation liabilities of £57.4m, which are significant in the context of the overall balance sheet of the parent company. The valuation of the pension liabilities requires significant levels of judgement and technical expertise in applying appropriate assumptions. The key assumptions include discount rates, RPI and CPI inflation rates and mortality rates. The Directors employ actuarial experts to assist them in identifying appropriate assumptions and valuing the liabilities in the scheme. Given the magnitude of the pensions liabilities, changes in assumptions or valuations could potentially result in material changes to the net position recognised.	To address this risk, we have designed and performed procedures over the report issued to the Directors by the actuary. We have engaged our actuarial experts to assist in the assessment of the methodology and assumptions underpinning the pension liabilities. The following procedures have been performed: • Review of the methodology applied by the actuary assessing its appropriateness and consistency with prior periods. • Assessing the reasonableness of the assumptions supporting the discount rates, mortality and inflation rates by comparing them to our independently developed benchmarks. • Rollforward of the liabilities was performed to ensure the reasonableness of the impact of changes in the defined assumptions during the period. • Testing over the census data of members. The assumptions, methodologies and valuations subject to our procedures were supported by the work performed.
Assessment of the implications of COVID-19 and assessment of the Going Concern assumption in light of the potential associated cash flow challenges In light of recent developments management has performed additional work to consider the impact of COVID-19 and in particular with respect to their going concern and viability assessments for the Company. This has been considered at a Group wide level, due to the Company not making its own revenues. In performing this assessment management has modelled a downside scenario which includes an average monthly revenue reduction of 24% through Q2 (13% reduction through the full year) compared to budget. Management also assumes a significant increase in their cash collection period and an increased default rate of 2%. The Group has set up a sub-committee of the Board who are responsible for reviewing its response to COVID-19 with respect to the 2019 annual report and accounts. Management has identified a number of mitigations, which include a recruitment freeze, further discretionary cost reductions such as travel and subsistence, professional fees, contractor fees, training and promotion and publicity, reducing the use of external resource and deferring capital expenditure and elements of employee remuneration. In considering all aspects of their position, management has also engaged in conversations with tax authorities around the world to consider the possibility of delaying payments to understand the options available to the Group. In addition to this management has engaged with the trustees of the UK Defined Benefit Pension Scheme to discuss temporarily stopping the additional pension funding through 2020. The Group currently does not have access to debt facilities; however, management has also engaged in conversations with its banks to understand the possibility of access to funding should it be required. Based on the review performed, as discussed with their sub-committee, management considers the Company to be able to prepare their accounts on a going concern basis, albeit with additional disclosures around the risks faced by the business due to the uncertainty over the extent and duration of the impact of COVID-19. These disclosures have been included on pages 77 and 78 of the annual report. In forming our opinion on the financial statements, we have considered the directors' conclusion that the Company is a Going Concern.	In assessing the Directors' conclusion that the Company is a Going Concern; we performed the following procedures: • agreed the underlying cash flow projections to management approved forecasts, assessed how these forecasts are compiled, and assessed the accuracy of management's historical forecasts; • evaluated management assumptions regarding the revenue and associated EBITDA reductions associated with COVID-19, together with assumptions regarding cash collections from customers; • evaluated the assumptions in respect of the costs that could be avoided in a period of significant revenue reduction; • assessed the impact of the mitigating factors available to management in including the ability to restrict capital expenditure and the associated cash impact; • checked the mathematical accuracy of the spreadsheet used to model future financial performance; • considered the adequacy of the disclosures included by management within the annual report, and considered the consistency with other statements and disclosures; and • considered the impact of our own, more pessimistic scenarios, regarding both profitability and cash collections. We have further sensitised management's models, considering severe however plausible changes to their base assumptions. In our worst-case scenario, we have assumed an average monthly revenue reduction of 43% through Q2 (26% reduction through the full year) compared to budget. We have also further elongated the cash collection assumptions. In addition to this we have assumed a further increase to the rate of default of 15%. Given the level of sensitivity applied, we have also taken into account some of the cost mitigations available to the Group, such as deferral of elements of employee remuneration to 2021, reduction in tax payments as a result of lower profits and reduction of capex spend. Based on the further sensitivities performed and the cost mitigations available to the Company we have concurred with the directors' assessment that there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern. We consider the disclosures included within the accounts related to this to be adequate.

Independent auditors' report continued

to the Board of Directors of The British Standards Institution

Report on the audit of the parent company financial statements continued

Our audit approach continued

How we tailored the audit scope

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

Materiality

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

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

Overall materiality	£469,000 (2018: £503,247).
How we determined it	1% of total expenses.
Rationale for benchmark applied	The parent company's operations encompass corporate centre, servicing the UK's Group's pension obligations and charges related to the national standards body. We have deemed that the key indicator for the performance of the parent company is related to the expenses recognised centrally and we have therefore used total expenses.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £24,800 (2018: £25,162) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Parent Company's ability to continue as a going concern.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

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

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

- The Directors' confirmation on page 27 of the Annual Report that they have carried out a robust assessment of the principal risks facing the parent company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 78 of the Annual Report as to how they have assessed the prospects of the Parent Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Parent Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

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

- The statement given by the Directors, on page 59, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the Board of Directors to assess the parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 61 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 59, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Independent auditors' report continued

to the Board of Directors of The British Standards Institution

Use of this report

This report, including the opinions, has been prepared for and only for the Board of Directors of the parent company as a body to enable the Board to discharge its stewardship and fiduciary responsibilities under the terms of the Royal Charter and Bye-laws and where applicable and possible the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Directors' remuneration

The parent company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The Directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the parent company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matter

We have reported separately on the consolidated financial statements of The British Standards Institution for the year ended 31 December 2019.

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford

27 March 2020

Parent company balance sheet

as at 31 December 2019

	Note	2019 £m	2018 restated* £m
Fixed assets			
Intangible assets	5	**14.4**	7.0
Tangible assets	6	**11.1**	12.0
Investment in subsidiaries	7	**68.3**	39.9
		93.8	58.9
Current assets			
Debtors (including £5.6m (2018: £11.7m) due after one year)	8	**172.5**	184.0
Fixed-term deposits	9	**15.0**	15.0
Cash at bank and in hand		**39.3**	48.2
		226.8	247.2
Creditors – amounts falling due within one year	10	**(180.0)**	(160.0)
Net current assets		**46.8**	87.2
Total assets less current liabilities		**140.6**	146.1
Defined benefit pension liability	13	**(57.4)**	(71.7)
Provision for liabilities	11	**(0.1)**	(0.1)
Net assets		**83.1**	74.3
Reserves			
Non-distributable reserves		**4.3**	4.3
Retained earnings		**78.8**	70.0
Total equity		**83.1**	74.3

* Refer to Note 3 for the amendment to the comparative numbers.

The Company's profit for the year ended 31 December 2019 was £6.0m (2018: £16.0m).

The accompanying notes on pages 141 to 153 form an integral part of the parent company financial statements.

The financial statements on pages 139 and 140 were approved by the Board of Directors on 27 March 2020 and were signed on its behalf by:

Craig Smith FCCA
Group Finance Director

27 March 2020

Parent company statement of changes in equity
for the year ended 31 December 2019

	Non-distributable reserves £m	Retained earnings £m	Total £m
At 1 January 2018	4.3	46.1	50.4
Profit for the year, net of taxes	—	16.0	16.0
Movement in actuarial valuation of defined benefit pension scheme, net of taxes	—	7.9	7.9
At 31 December 2018	**4.3**	**70.0**	**74.3**
Profit for the year, net of taxes	**—**	**6.0**	**6.0**
Movement in actuarial valuation of defined benefit pension scheme, net of taxes	**—**	**2.8**	**2.8**
At 31 December 2019	**4.3**	**78.8**	**83.1**

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

Non-distributable reserve
The non-distributable reserve arose on the revaluation of an investment property on transition to FRS 102 and includes the associated deferred tax of £0.9m (2018: £0.9m).

Notes to the parent company financial statements

for the year ended 31 December 2019

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 UK 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 4.

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.

h. Dividend income

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

Notes to the parent company financial statements continued

for the year ended 31 December 2019

2. Principal accounting policies continued

i. Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

i. 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.

ii. Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow Group companies, are initially recognized at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at transaction price and subsequently measured at amortized cost using the effective interest method. The Company does not hold or issue any other financial liabilities for trading purposes.

j. Finance and operating leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Lease incentives

The Company has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 January 2014) and continues to credit such lease incentives to the profit and loss account over the period to the first review date on which the rent is adjusted to market values.

The Company does not have any finance leases.

k. Fixed-term deposits

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

l. Cash and cash equivalents

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

m. Investment in Group undertakings

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

n. Intangible assets

Computer software

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

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

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

2. Principal accounting policies continued

n. Intangible assets continued

Computer software continued

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal factors that the 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. 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.

q. 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 described in the financial statements unless the probability of an outflow of resources is remote.

Notes to the parent company financial statements continued

for the year ended 31 December 2019

2. Principal accounting policies continued

r. Employee benefits

i. Defined benefit pension schemes

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

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

The valuation of the Company's net obligation is performed by an independent qualified actuary as determined by the Trustees. Pension scheme assets are measured using market values for quoted assets. The MetLife Annuity Policy asset is valued at an actuarial estimate using the assumptions shown in Note 13. The pension scheme liabilities are measured using the projected unit actuarial method where estimated future cash flows are discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent duration and currency to the liability.

The income statement charge is split between an operating charge and a net finance charge. The operating charge relates to administration costs of operating the scheme. The net finance charge relates to the unwinding of the discount applied to the liabilities of the scheme offset by the expected return on the assets of the scheme, based on conditions prevailing at the start of the year.

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

ii. Defined contribution pension schemes

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

s. 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.

t. 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.

u. 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. Change in accounting policy

In 2019, the Company adopted the triennial review amendments to FRS 102. As a result of these amendments, the freehold property owned by the Company has been reclassified from an investment property to tangible assets. Under the transitional provisions contained in FRS 102, paragraph 1.19(a), the Company has applied the transitional provision which allows an entity to take the fair value at the date of transition, being the start date of the comparative year presented in the financial statements (1 January 2018). The comparatives have been restated under the cost model. The impact on net assets at 31 December 2018 is a reduction of £0.4m from £74.7m as disclosed previously to £74.3m.

4. 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 reassessed 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 6 for the carrying amount of tangible assets and Note 2 for the useful lives applied for each asset class.

b. Useful economic lives of intangible assets

The useful economic lives used to amortize intangible assets relate to the expected future performance of the assets acquired and management's estimate of the period over which the economic benefit will be derived from the asset. The estimated useful life of these intangible assets is three years. See Note 5 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 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 principal assumptions and a sensitivity analysis are detailed in Note 13.

5. Intangible assets

	Computer software £m
Cost	
At 1 January 2018	19.3
Additions	4.0
Disposals	(0.6)
At 31 December 2018	**22.7**
Additions	**9.8**
Disposals	**(0.5)**
At 31 December 2019	**32.0**
Accumulated amortization and impairment	
At 1 January 2018	(13.1)
Charge in the year	(2.6)
At 31 December 2018	**(15.7)**
Charge in the year	**(1.9)**
At 31 December 2019	**(17.6)**
Net book value at 31 December 2019	**14.4**
Net book value at 31 December 2018	7.0

Notes to the parent company financial statements continued

for the year ended 31 December 2019

6. Tangible assets

	Freehold land and buildings £m	Short leasehold improvements £m	Assets under construction £m	Plant, machinery and office equipment £m	Total £m
Cost					
At 1 January 2018	5.6	5.8	0.1	6.2	17.7
Additions	—	—	0.7	—	0.7
Disposals	—	—	—	(0.6)	(0.6)
Reclassifications	—	—	(0.7)	0.7	—
At 31 December 2018	**5.6**	**5.8**	**0.1**	**6.3**	**17.8**
Additions	**—**	**—**	**0.8**	**—**	**0.8**
Disposals	**—**	**—**	**—**	**(0.4)**	**(0.4)**
Reclassifications	**—**	**—**	**(0.7)**	**0.7**	**—**
At 31 December 2019	**5.6**	**5.8**	**0.2**	**6.6**	**18.2**
Accumulated depreciation and impairment					
At 1 January 2018	—	(0.9)	—	(3.4)	(4.3)
Charge in the year	(0.1)	(0.7)	—	(0.8)	(1.6)
Disposals	—	—	—	0.1	0.1
At 31 December 2018	**(0.1)**	**(1.6)**	**—**	**(4.1)**	**(5.8)**
Charge in the year	**(0.1)**	**(0.7)**	**—**	**(0.7)**	**(1.5)**
Disposals	**—**	**—**	**—**	**0.2**	**0.2**
At 31 December 2019	**(0.2)**	**(2.3)**	**—**	**(4.6)**	**(7.1)**
Net book value at 31 December 2019	**5.4**	**3.5**	**0.2**	**2.0**	**11.1**
Net book value at 31 December 2018	5.5	4.2	0.1	2.2	12.0

7. Investment in subsidiaries

	2019 £m	2018 £m
Cost at 1 January	**39.9**	39.9
Additions	**28.4**	—
Cost at 31 December	**68.3**	39.9

The addition in the year of £28.4m is an additional capital contribution to BSI Limited.

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

A list of subsidiaries is provided in Note 30 to the consolidated financial statements.

8. Debtors

	2019 £m	2018 £m
Trade debtors	**0.8**	2.1
Amounts owed by Group undertakings	**150.7**	159.6
Corporation tax receivable	**2.2**	1.2
Other debtors	**0.4**	0.5
VAT receivable	**1.4**	1.0
Prepayments and accrued income	**6.7**	6.0
Deferred taxation (Note 12)	**10.3**	13.5
Derivative financial instruments	**—**	0.1
Total debtors	**172.5**	184.0

Amounts owed by Group undertakings include trade and finance amounts. The unsecured finance amounts of £33.3m (2018: £54.0m) have no fixed terms of repayment and are repayable on demand, but are interest bearing with the rates ranging between 1.7% and 6.0% (2018: 1.8% and 0.6%).

Deferred taxation includes £5.6m (2018: £11.7m) to be recovered after more than one year.

9. Fixed-term deposits

The Group has invested £15.0m of cash in a fixed-term bank deposit (2018: £15.0m), subject to a notice period of 95 days (2018: 95 days). In the parent company balance sheet this fixed-term deposit is shown within current assets.

10. Creditors: amounts falling due within one year

	2019 £m	2018 £m
Trade creditors	**1.6**	1.4
Amounts owed to Group undertakings	**162.3**	137.7
Social security and other payroll taxes	**0.8**	0.6
Other creditors	**1.0**	0.9
Accruals	**8.6**	13.7
Deferred income	**5.7**	5.7
Creditors falling due within one year	**180.0**	160.0

Trade creditors are non-interest bearing and are generally on 30–60 day terms. Amounts owed to Group undertakings include trade and finance amounts. The unsecured finance amounts of £7.0m (2018: £9.9m) have no fixed terms of repayment and are repayable on demand, but are interest bearing with rates ranging between 1.7% and 5.4% (2018: 1.8% and 5.4%).

11. Provisions for liabilities

	Property provisions £m
At 1 January 2019	0.1
Released to the profit and loss account	—
At 31 December 2019	**0.1**

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

Notes to the parent company financial statements continued
for the year ended 31 December 2019

12. Deferred taxation

	2019 £m	2018 £m
Deferred tax assets:		
– To be recovered after more than twelve months	**6.4**	12.5
– To be recovered within twelve months	**4.7**	1.8
Total deferred tax assets	**11.1**	14.3
Deferred tax liabilities:		
– To be incurred after more than twelve months	**(0.8)**	(0.8)
Total deferred tax liabilities	**(0.8)**	(0.8)
Total net deferred tax assets	**10.3**	13.5

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 2019	**1.3**	**(0.3)**	**12.5**	**13.5**
Debited to profit and loss account	**(0.3)**	**(0.4)**	**—**	**(0.7)**
Debited to current year reserves	**—**	**—**	**(2.5)**	**(2.5)**
At 31 December 2019	**1.0**	**(0.7)**	**10.0**	**10.3**

13. Pension obligations

The Company operates the following retirement benefit schemes:

a. Defined contribution scheme

Following the closure of the defined benefit final salary scheme to new entrants, the Company offers a group personal pension plan to all new UK employees. The costs for the year were £2.2m (2018: £1.6m). 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 2019. This revealed an ongoing funding level of 83% (31 March 2016: 80%). The Group subsequently agreed a schedule of contributions with the Trustees which was put in place from 1 April 2019. 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 £66.5m over the period from 1 April 2019 to 31 August 2024. Contributions in respect of future service benefits ceased on 30 April 2010.

The liabilities have been calculated by, and the assumptions have been set on the recommendations of, an independent qualified actuary as required by FRS 102.

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

The Company paid a total of £13.5m in contributions to the fund during the year (2018: £13.5m).

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

	2019 £m	2018 £m
Present value of defined benefit obligations	**436.3**	410.8
Fair value of plan assets	**(378.9)**	(339.1)
Net liability in the balance sheet	**57.4**	71.7

13. Pension obligations continued

b. Defined benefit scheme continued

The movement in the defined benefit obligation over the year was as follows:

	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 January 2018	440.3	(350.3)	90.0
Amounts charged/(credited) to the income statement:			
– Administration expenses	—	0.5	0.5
– Service cost – GMP adjustment	2.5	—	2.5
– Interest expense/(income)	10.6	(8.7)	1.9
	13.1	(8.2)	4.9
Re-measurements:			
– Loss on plan assets, excluding amounts included in interest expense	—	18.6	18.6
– Gain from change in demographic assumptions	(3.8)	—	(3.8)
– Gain from change in financial assumptions	(25.0)	—	(25.0)
– Experience losses	0.5	—	0.5
	(28.3)	18.6	(9.7)
Contributions:			
– Employers	—	(13.5)	(13.5)
Payments from plans:			
– Disbursements	(14.3)	14.3	—
	(14.3)	0.8	(13.5)
At 31 December 2018	**410.8**	**(339.1)**	**71.7**
Amounts charged/(credited) to the income statement:			
– Administration expenses	**—**	**0.7**	**0.7**
– Interest expense/(income)	**11.5**	**(9.8)**	**1.7**
	11.5	**(9.1)**	**2.4**
Re-measurements:			
– Return on plan assets, excluding amounts included in interest expense	**—**	**(31.0)**	**(31.0)**
– Gain from change in demographic assumptions	**(14.3)**	**—**	**(14.3)**
– Loss from change in financial assumptions	**50.5**	**—**	**50.5**
– Experience gains	**(8.4)**	**—**	**(8.4)**
	27.8	**(31.0)**	**(3.2)**
Contributions:			
– Employers	**—**	**(13.5)**	**(13.5)**
Payments from plans:			
– Disbursements	**(13.8)**	**13.8**	**—**
	(13.8)	**0.3**	**(13.5)**
At 31 December 2019	**436.3**	**(378.9)**	**57.4**

Notes to the parent company financial statements continued
for the year ended 31 December 2019

13. Pension obligations continued
b. Defined benefit scheme continued
The major assumptions used for the updated actuarial valuation were:

	2019 % p.a.	2018 % p.a.
Rate of general increase in salaries	**4.05**	4.30
Rate of revaluation in deferment	**2.05**	2.30
Pension increase rate:		
– RPI (min. 3%, max. 5%)	**3.50**	3.60
– CPI (min. 3%, max. 5%)	**3.20**	3.30
Discount rate	**2.00**	2.85
Inflation assumption – RPI	**3.05**	3.30
Inflation assumption – CPI	**2.05**	2.30

Life expectancy at age 65 for a member currently aged 45 is 23.3 (2018: 24.6) years (men) or 25.7 (2018: 26.2) years (women). Life expectancy for a member currently aged 65 is 22.0 (2018: 23.2) years (men) or 24.3 (2018: 24.6) years (women).

Plan assets are comprised as follows:

	Value at 31 December 2019 £m		Value at 31 December 2018 £m	
Schroders Diversified Growth Fund	**117.8**	**31%**	90.4	27%
Standard Life Global Absolute Return Strategies Fund	**70.2**	**19%**	64.5	19%
M&G Credit Fund	**20.3**	**5%**	20.0	6%
Schroders Liability-Driven Investments	**52.2**	**14%**	38.3	11%
Schroders Corporate Bond Fund	**—**	**—**	10.4	3%
Alcentra Credit Fund	**19.8**	**5%**	20.8	6%
Cash	**13.6**	**4%**	5.3	2%
MetLife Annuity Policy	**85.0**	**22%**	89.4	26%
Total fair value of assets	**378.9**	**100%**	339.1	100%

Expected contributions to retirement benefit plans for the year ending 31 December 2020 are £27.1m (2019: £13.5m).

The weighted average duration of the defined benefit obligation is sixteen years (2018: sixteen years).

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

	Increase/(decrease) in present value of deficit at 31 December 2019		
	Change in assumption	**Increase in assumption £m**	**Decrease in assumption £m**
Discount rate	**0.25% p.a.**	**(14.4)**	**16.2**
Inflation rate*	**0.25% p.a.**	**3.5**	**(3.1)**
Salary escalation	**0.25%**	**0.5**	
Life expectancy	**Approximately 1 year**	**12.4**	

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

14. Financial assets

At 31 December 2019	Loans and receivables £m
Assets as per balance sheet	
Debtors excluding prepayments and accrued income and deferred taxation	**155.5**
Derivative financial instruments	**—**
Fixed-term deposits	**15.0**
Cash and cash equivalents	**39.3**
Total	**209.8**

At 31 December 2019	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet	
Creditors excluding non-financial liabilities	**174.3**
Total	**174.3**

At 31 December 2018	Cash flow hedges at fair value £m	Loans and receivables £m
Assets as per balance sheet		
Debtors excluding prepayments and accrued income and deferred taxation	—	164.5
Derivative financial instruments	0.1	—
Fixed-term deposits	—	15.0
Cash and cash equivalents	—	48.2
Total	0.1	227.7

At 31 December 2018	Other financial liabilities at amortized cost £m
Liabilities as per balance sheet	
Creditors excluding non-financial liabilities	154.3
Total	154.3

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 2019 the outstanding contracts all mature within twelve months (2018: twelve months) of the year end. The Company is committed to buy CHF 2.4m (2018: CHF 1.9m) 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.

The Company has no interest rate derivative instruments (2018: none).

Notes to the parent company financial statements continued

for the year ended 31 December 2019

15. Employees

	2019 £m	2018 £m
Wages and salaries	**22.1**	17.8
Social security costs	**2.8**	2.2
Long Term Incentive Plan (LTIP) (credit)/expense	**(0.7)**	0.5
Other pension costs	**2.2**	1.6
Defined benefit plan – Guaranteed Minimum Pension (GMP) adjustment	**—**	2.5
Total employee benefit expense	**26.4**	24.6

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

	2019 Number	2018 Number
Production, inspection and laboratory	**25**	20
Sales and distribution	**45**	39
Administration	**240**	189
Total headcount	**310**	248

Disclosures in respect of Directors' emoluments can be found in the Directors' remuneration report on pages 66 to 75.

16. Auditors' remuneration

The amount of remuneration receivable by the Company's auditors in respect of the audit of the parent company financial statements is £0.2m (2018: £0.2m).

17. Capital commitments

	2019 £m	2018 £m
Capital expenditure that has been contracted for but not provided for in the financial statements	**0.1**	2.0

18. Financial commitments

At 31 December 2019, annual commitments under non-cancellable operating leases were as follows:

	2019			2018		
	Land and buildings £m	**Other £m**	**Total £m**	Land and buildings £m	Other £m	Total £m
No later than 1 year	**2.1**	**0.1**	**2.2**	1.8	0.1	1.9
Later than 1 year and no later than 5 years	**8.8**	**0.2**	**9.0**	7.2	0.2	7.4
Later than 5 years	**1.7**	**—**	**1.7**	3.3	—	3.3
Minimum lease payments	**12.6**	**0.3**	**12.9**	12.3	0.3	12.6

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 2019, the Company held foreign exchange contracts to the value of £1.9m (2018: £23.1m), all expiring within one year. The mark-to-market value of these contracts was £nil (2018: £0.1m).

19. Related party transactions

Transactions with related parties have been determined in accordance with FRS 102 and are disclosed below:

a. Pension scheme Trustees

Transactions with the pension scheme Trustees are disclosed in Note 13.

b. Key management

The Company has taken advantage of the exemption available under FRS 102 paragraph 1.12(e) from disclosing key management personnel compensation in total.

c. Transactions with non-wholly owned subsidiaries

There were no material transactions with non-wholly owned subsidiaries during the year. All transactions between the Company and non-wholly owned Group companies arise in the ordinary course of business and are on an arm's length basis.

20. Contingent liabilities

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

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

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

In this report the 'Company' refers to The British Standards Institution, a Royal Charter Company, Companies House number ZC000202, which is the parent company for the financial statements.

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